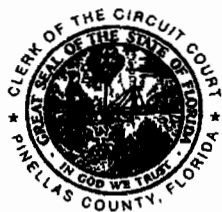


9. REPORTS TO BE RECEIVED FOR FILING

- a. Division of Inspector General, Audit Services, Clerk of the Circuit Court and Comptroller, Report No. 2012-25 dated November 29, 2012 – Follow-Up Audit of Community Development Administration and Selected Programs.
- b. Florida Model Jail Standards Inspection Report for Pinellas County Jail inspection held October 29-31, 2012.
- c. Dock Fee Report for the month of November 2012.



## Ken Burke, CPA


CLERK OF THE CIRCUIT COURT AND COMPTROLLER  
PINELLAS COUNTY, FLORIDA

Clerk of the County Court  
Recorder of Deeds  
Clerk and Accountant of the Board of County Commissioners  
Custodian of County Funds  
County Auditor

### \*Division of Inspector General

510 Bay Avenue  
Clearwater, FL 33756  
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Clerk's website: [www.mypinellasclerk.org](http://www.mypinellasclerk.org)

TO: The Honorable Chairman and Members  
of the Board of County Commissioners

FROM:  Ken Burke, CPA  
Clerk of the Circuit Court and Comptroller  
Ex Officio County Auditor

SUBJECT: Follow-Up Audit of Community Development Administration  
& Selected Programs

DATE: November 29, 2012

For your review and filing in the Official Records, I am enclosing a copy of the follow-up audit dated November 29, 2012 on the above-referenced audit.

I hope you find this report helpful in ensuring Pinellas County government provides the best possible service to our citizens.

cc: Robert S. LaSala, County Administrator  
Jim Bennett, County Attorney  
Carl Harness, Assistant County Administrator  
Anthony Jones, Bureau Director, Community Development  
Cheryl C. Reed, Assistant Director, Community Development  
Claretha N. Harris, Chief Deputy Director, Finance Division  
Ernst & Young





## **DIVISION OF INSPECTOR GENERAL**

**KEN BURKE, CPA**

**CLERK OF THE CIRCUIT COURT AND COMPTROLLER  
PINELLAS COUNTY, FLORIDA**

# **FOLLOW-UP AUDIT OF COMMUNITY DEVELOPMENT ADMINISTRATION & SELECTED PROGRAMS**



**WHO ARE THE PEOPLE  
WHO NEED AFFORDABLE HOUSING**



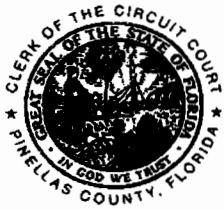
**Working together for a better future.**



**Hector Collazo, Jr., Director  
Inspector General/Chief Audit Executive**

**Audit Team  
Ronald Peters, CIA, CISA, CIGA – Senior Inspector General Auditor**

**NOVEMBER 29, 2012  
REPORT NO. 2012-25**



## Ken Burke, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER  
PINELLAS COUNTY, FLORIDA

Clerk of the County Court  
Comptroller  
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November 29, 2012

The Honorable Chairman and Members  
of the Board of County Commissioners

We have conducted a follow-up audit of Community Development (CD) and the Housing Finance Authority (HFA) Administrative Service Agreement. The objectives of our review were to determine the implementation status of our previous recommendations.

Of the 87 recommendations in the report, we determined that 52 were not implemented, 5 were implemented, 1 had an acceptable alternative, 7 were partially implemented, and 22 are no longer applicable. We continue to encourage management to fully implement the IG recommendations. The status of each recommendation is presented in this follow-up review.

Respectfully Submitted,

Hector Collazo, Jr., Director  
Division of Inspector General

Approved:

Ken Burke, CPA\*  
Clerk of the Circuit Court and Comptroller  
Ex Officio County Auditor  
\*Regulated by the State of Florida



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# INTRODUCTION

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## ***Scope and Methodology***

### Community Development:

We conducted a follow-up audit of Community Development (CD) and the Housing Finance Authority (HFA) Administrative Service Agreement. The purpose of our follow-up review is to determine the status of previous recommendations for improvement.

The purpose of the original audit was to determine:

1. If CD programs are in compliance with funding sources' requirements.
2. The adequacy of Community Development (CD) policies/procedures and internal controls.
3. The adequacy of CD records and documentation maintained for program applicants.
4. If projects related to CD programs are adequately monitored and performance is recorded.
5. That agencies utilized by CD are in compliance with any agreements/contracts and that CD has adequate oversight processes in place for the rendering of the services.
6. That CD resources are being used in an efficient, effective, and economical manner.
7. If the CD financial processes properly support the operations of the department.
8. If the CD department has established proper goals to meet its objectives, and if effective monitoring and oversight are present.

### Housing Finance Authority:

The purpose of the original audit was to determine:

1. The adequacy of the HFA policies/procedures and internal controls for the Travel Voucher and credit card function.
2. If CD employees are subject to the same requirements as other County employees processing Travel Voucher and credit card transactions through the Finance pre-audit function.
3. The adequacy of HFA records and documentation maintained for Travel Vouchers and credit card payments.
4. If items charged and paid by CD employees are for a proper County purpose.

Our follow-up audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector General*, and, accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our follow-up testing was

performed during the month of July 2012. The original audit period was July 1, 2007 through October 31, 2008. However, transactions and processes reviewed were not limited by the audit period.

## ***Overall Conclusion***

Of the 87 recommendations in the original report, we determined that 52 were not implemented, 5 were implemented, 1 had an acceptable alternative, 7 were partially implemented, and, 22 are no longer applicable. We continue to encourage management to fully implement the IG recommendations.

## Status Of Action Plan

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
1	<b>Management Withheld Information, Avoided Supplying Detailed Information Covering CD Processes And Put In Place An Audit Interface Process That Limited Auditors From Obtaining Information In An Effective Manner.</b>  CD management fully and openly cooperates with all future audits and auditors.			✓		
2	<b>There Is A Weak Oversight Process For The CD Services Being Delivered To The Public.</b> A. Establish a formal approval process to be approved by the BCC for establishing dollar amount levels of approval for origination of mortgage loans, changes in terms and forgiveness of loans.			✓		
	B. Develop written procedures for the process that requires adequate reporting and supporting documentation.				✓	
	C. Establish performance criteria that relate to the service being provided to the public (i.e., loan processing).				✓	
	D. Develop formal policies and procedures for the operation of the CD Department, including but not limited to, the areas covered in the Opportunities for Improvement presented in this report.				✓	

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
3	<b><i>Community Development Is Allocating General Administration Costs Of The Department To The County Connection Cost Center.</i></b>					
	A. Allocate only the General Administration Costs of the CD Department to the CD grant administration functions.					✓
	B. Ensure that all General Administration Cost allocations have supporting documentation.					✓
4	<b><i>Community Development Accounting Policy Does Not Record Deferred Loans On The County General Ledger Until The Loan Reaches the Start of the Repayment Period.</i></b>					
	A. Validate each deferred loan recorded on the COMDEV Deferred Loan Report to the CD Lien Files for correctness. Determine the loans that are still deferred (not in repayment). If needed, adjust the Deferred Loan Report/database to break out loans that are in repayment and loans still deferred.			✓		
	B. Develop formal written procedures that record each transaction for deferred loans on the County General Ledger.		✓			
	C. Require a monthly reconciliation be performed between the inventory record (Deferred Loan Report) and the General Ledger.					✓
5	<b><i>The \$789,000 For Community Development North And South Connection Centers Duplicates Existing County Services.</i></b>					

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

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	For the Fiscal Year 2009/2010 budget, management eliminated the funding and closed the Connection Centers. We would like to commend management for their swift and immediate analysis and the implementation of our recommendation.					✓
6	<b><i>The Arrangement Between The Community Development Department And The Housing Finance Authority Creates A Conflict Of Interest Situation, And The Agreement Does Not Support The Services Rendered By CD And Creates Operational Risk.</i></b>					
	County management sever the agreement with the HFA or replace the Executive Director and his staff with non-County employees.			✓		
7	<b><i>HFA Is Closing On Down Payment Assistance Loans Prior To The HFA Issuing The Letter Of Approval To The Borrower That The Loan Qualifies For The Hometown Heroes Plus Loan Program Offered by CD.</i></b>					
	Management, acting as an agent of HFA, not close on the Down Payment Loans until the Letter of Approval is issued for the Hometown Heroes Plus loan by the HFA.				✓	
8	<b><i>The Process Of Having The HFA Close Home Town Heroes Plus Loans That Are Repurchased By CD Is Not Operationally Justified.</i></b>					
	CD management close the Home Town Heroes Plus Down Payment Assistance Loans and remove the HFA from the financial process.				✓	

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
9	<b><i>The CD Loan And Funding Process For The Home Town Heroes Loans Does Not Properly Support The Program.</i></b>					
	Management develop formal written procedures to process Home Town Heroes loans in a reasonable time frame and provide funding at the closing for the mortgage.				✓	
10	<b><i>Community Development Made Cash Advances To Tampa Bay Community Development For Working Capital Totalling \$150,000.</i></b>					
	Management's advances and/or loans not be granted to agencies to support funding loans that are being closed by the agency when CD has the ability to fund the loans at closing by changing their internal procedures.					✓
11	<b><i>The Allocation Criteria Used By CD For Indirect Expenses Assessed By The County To The Department Does Not Use The Proper Criteria For Calculation Of The Administration Cost.</i></b>					
	A. Document the justification for using the quarter expense versus staff utilization as the criteria for the allocation of indirect expenses.				✓	
	B. Evaluate the justification and consider changing the criteria to "Staff Time Usage."				✓	
12	<b><i>Internal Controls Are Inadequate For Processing Loan Files Received From The Agencies.</i></b>					
	A. Change their internal control process for loan files received to establish control when the files are received by the department, and account				✓	

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

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	for proper processing.					
	B. Access to the control document (Loan Log) should be limited to only authorize persons to input and update the information.				✓	
13	<b>Management Has Implemented A New Internal Control To Review Completed Loan Files Without Proper Structure.</b>					
	Management determines if this process is an internal control. If the process is an internal control, correct the deficiencies present in the Opportunity for Improvement.				✓	
14	<b>The Resident Assurance Process For CD Loan Programs Is Not Properly Documented.</b>					
	A. Develop written procedures which will provide the necessary information to keep the process current and accurate.				✓	
	B. Cross-training should be provided to ensure that a second appropriate staff member could carry out the responsibilities of the function.				✓	
	C. The results of the review should be tabulated and the results evaluated for risk as related to the timing of the review of four years.				✓	
15	<b>The Loan Database "Total Cost" Field Is Not Adequately Documented In The Loan Files For The Home Town Heroes Program.</b>					
	Management develop written procedures which will provide the necessary information to keep the				✓	

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
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	process current and accurate. The procedure should provide adequate documentation be present in the loan files to ensure the "Total Cost" field was properly calculated and input into the database.					
16	<b><i>CD Reported Two Loans to Ship That were Paid Out Past The Three Year Time Frame For Use Of Grant Funds.</i></b>					
	Management evaluate the correctness of the two loans reported in 2004-2005 and make the adjustment as required by SHIP	✓				
17	<b><i>There Is A Lack Of Oversight Of CD Management Granting Financial Concessions For Affordable Housing Rental Loans.</i></b>					
	A. Be required by BCC to produce policies and procedures that cover the financial concession process and require that CD present to the Board for approval the financial concessions' policies and procedures. The procedures must require adequate documentation justifying the financial concessions being granted.				✓	
	B. The review and approval process be put into place based on the dollar amount of the loan requiring approvals by the BCC, County Administrator and the Director of CD for financial concessions.				✓	
18	<b><i>Community Development Is Forgiving Affordable Rental Housing Development Mortgages Without Any Written Policies And Procedures.</i></b>					



Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	A. Develop and implement written policies and procedures for the practice of forgiving any mortgage amounts related to affordable rental housing development projects. The procedures must require adequate documentation justifying the amount forgiven.			✓		
	B. Develop a review and approval process to be put into place, based on the dollar amount of the loan, requiring approvals by the BCC, County Administrator, and the Director of CD for financial concessions.	✓				
19	<b><i>The Community Development Department Does Not Have Any Written Policies And Procedures Related To Their Practice Of Modifying Affordable Rental Housing Development Project Mortgages.</i></b>					
	A. Develop and implement written policies and procedures for the process of reviewing and approving rental housing developers' requests for mortgage modifications. The procedure must require adequate documentation justifying the mortgage modifications being granted.			✓		
	B. Develop and implement a review and approval process to be put into place based on the dollar amount of the loan requiring approvals by the BCC, County Administrator, and the Director of CD for financial concessions.	✓				
20	<b><i>Community Development Grants Generous Financial Concessions To Contemporary Housing Alternatives Of Florida, Inc. (CHAF) That Affects</i></b>					

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	<b>County Funding Availability.</b>					
	<p>A. County management, who is independent of CD management, be required by the BCC to conduct comprehensive analyses of:</p> <ol style="list-style-type: none"> <li>1. The soundness of CD's process of its review and approval of affordable rental housing development projects and developers.</li> <li>2. The financial and professional strength of CHAF to continue to be the primary provider of affordable rental housing development for the County.</li> </ol>				✓	
	<p>B. Serious consideration be made for encouraging and/or developing other Community Housing Development Organizations to develop affordable housing in Pinellas County. This will become an even more critical issue in the very near future as additional funding becomes available to CD and the County to purchase and rehabilitate properties in foreclosure.</p>				✓	
	<p>C. A review and approval process be put in place based on the dollar amount of the loan requiring approvals by the BCC and the County Administrator for financial concessions.</p>				✓	
21	<b>The Limited Written Policies And Procedures Related To The Review Process Of Affordable Rental Housing Development Program Applications Are Inadequate.</b>					
	<p>A. Develop and implement written policies and procedures related to their various processes for reviewing and approving developers'</p>				✓	

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

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		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	applications for proposed affordable rental housing development projects.					
	B. There should be no meeting(s) held with the prospective applicant that is not documented by CD management and placed in the loan files.				✓	
22	<b><i>Community Development Checklists Used For Affordable Rental Housing Development Program Project Review/Approval Process Do Not Provide Adequate Internal Controls.</i></b>					
	Management develop and implement written policies and procedures related to their various processes for reviewing and approving developers' applications for proposed affordable rental housing development projects with a checklist to include:				✓	
	A. Each step on the checklist should be covered in the procedures					
	B. The checklist should be updated to include date for performing the task and place for the initials of the staff member performing the task.				✓	
	C. There should be no unexplained uncompleted items of "NA" on the checklist.				✓	
	D. The checklist should be part of the internal control process along with the written procedures				✓	
23	<b><i>There Are No Written Policies And Procedures Related To The Fund Disbursement Process Of</i></b>					

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
24	<b><i>Affordable Rental Housing Development Program Approved Projects.</i></b>					
	Management develop and implement written policies and procedures related to their various fund disbursement processes for affordable rental housing development projects.				✓	
	<b><i>Checklists Used By CD For The Disbursement Of Funds Related To The Affordable Rental Housing Development Program Projects Do Not Provide Adequate Internal Controls.</i></b>					
	Management develop and implement written policies and procedures related to their fund disbursement processes for affordable rental housing development projects.				✓	
25	<b><i>Internal Controls Related To The Maintenance Of Affordable Rental Housing Development Program Project Case Files Are Inadequate.</i></b>					
	A. Develop and implement formal written procedures to support adequate internal controls related to their affordable rental housing development project records.				✓	
	B. Ensure that all mortgages in repayment for this program have loan files with adequate supporting documentation, whether stored on site or in record storage.				✓	
26	<b><i>Almost 14% Of The Affordable Rental Housing Development Project Files Reviewed Lacked Adequate Property Transaction Settlement Statements.</i></b>					

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	Management take steps to ensure adequate property transaction settlement statements are obtained and maintained for all affordable rental housing development projects that are deferred and/or are in repayment.				✓	
27	<b><i>Community Development's Monitoring Of The Home Town Heroes Program To The Budget Is Inadequate.</i></b>					
	A. Update their process of monitoring the program budget versus actual to also include the original budget and budget changes for the Home Town Heroes program.					✓
	B. Develop written procedures for the process that requires adequate reporting and supporting documentation.					✓
28	<b><i>Community Development Policy Does Not Require A Written Marketing Plan For The Home Town Heroes Program.</i></b>					
	Management formally document in writing a Marketing Plan, which addresses the Home Town Heroes Loan Program to:					
	A. Document who (an agency or the CD Department) has responsibility for paying marketing costs and performing marketing tasks of the Home Town Heroes Program.					✓
	B. Include the types of media to be used and address the cost effectiveness of the media type(s) planned.					✓
	C. Community Development management					

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	should either add a line to the application to ask how the applicant heard about the program or have the agency gather and document the information in the file on a separate document.					✓
29	<b><i>The Home Town Heroes Program Information Statement Does Not Provide Accurate, Timely, And Complete Information.</i></b>					
	A. Keep the information on the Information Statement for the Home Town Heroes Program current, no matter if the document is available to the public or just used for internal information for the CD staff.					✓
	B. Update the program information statement as changes are made to the program to provide accurate and complete communication of program requirements.					✓
30	<b><i>Management Is Not Complying With Their Home Town Heroes Program's Internal Policy.</i></b>					
	A. Update their internal policies (in this case the Information Statement) to comply with their current criteria	✓				
	B. If deviations in employment, or any other criteria, will be permitted, a formal written policy must be developed.					✓
	C. Documentation and approval for any deviation must be present in the loan file.					✓
31	<b><i>A Breakdown Is Present In Management's Final</i></b>					

Introduction: Follow-Up Audit of  
Community Development Administration and Selected Programs

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		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
32	<b><i>Check To Ensure The Correct Information Was Entered Into The Loan Active Database For Home Town Heroes Program.</i></b>					
	Management ensure that a database review is performed for all completed files. The sign-off should be made an internal control and the process documented in a written procedure. The loan file should not be filed unless the signature is present.					✓
	<b><i>Management Changed The Standard Mortgage Forms For The Home Town Heroes Program Without Proper Documentation For The Approval Of Changes.</i></b>					
	Management develop formal written procedures for the process of modifying legal document forms. The procedures should include the mortgage form issues noted in this Opportunity for Improvement.					✓
33	<b><i>Construction Cost Refunds Are Properly Documented In Database Records. No Procedure Exists To Ensure</i></b>					
	A. Develop written procedures which will provide the necessary information to keep the process current and accurate. The procedure should require the refund information be recorded in the Loan Application Database.					✓
	B. Determine if the County has not received the refund of \$540.				✓	
34	<b><i>There Are No Marketing Plans, Objectives, and Goals Which Have Been Implemented For The</i></b>					

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OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	<b><i>Home Town Heroes Plus Program.</i></b>					
	A. Develop a marketing plan, set objectives and goals, and consider other alternatives, such as non-profit agencies, to service the Home Town Heroes Plus program.					✓
	B. Develop procedures to define and implement a proper interface process for this Program.					✓
35	<b><i>Community Development Program Budget Monitoring For The Home Town Heroes Plus Program Is Inadequate.</i></b>					
	A. Update the process of monitoring program budget versus actual to also include the original budget and budget changes for the Home Town Heroes Plus Program as well as the revised budget.					✓
	B. Develop written procedures for the process that requires adequate reporting and supporting documentation.					✓
36	<b><i>Community Development Is Paying Loan Processing Fees For Hometown Heroes Plus To The HFA Without A Servicing Agreement.</i></b>					
	County management obtain a Specific Performance Agreement from HFA for the loan processing services and the fees for the Home Town Heroes Plus program.					✓
37	<b><i>The Home Town Heroes Plus Program Information Posted Under The County's Community Development Department Internet Site Is Not Accurate.</i></b>					



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		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	Management update the CD Department internet site to provide the current information related to the Home Town Heroes Plus Program.			✓		
38	<b><i>Community Development Program Budget Monitoring For The Home Repair Program Is Inadequate.</i></b>					
	A. Update the process of monitoring program budget versus actual to also include the original budget and budget changes for the Home Repair Loan program as well as the revised budget.				✓	
	B. Develop written procedures for the process that requires adequate reporting and supporting documentation				✓	
39	<b><i>There Is A Lack of Formal Written Procedures For The Home Repair Loan Program Review And Approval Process.</i></b>					
	A. Develop formal complete written procedures beyond the current guidelines, which will provide the necessary information to keep the process current and accurate and provide the necessary documentation to support the internal controls of the process for the Home Repair Loan Program.				✓	
	B. The procedures should be approved by CD management and dated. Signatures representing approval of eligibility should be labeled as such, instead of "Reviewed by CD."				✓	

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OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	C. The procedures should also include which position performs what task and which position approves tasks and decisions. It should also include which forms, spreadsheets and documents are to be used for each task and where they are located.				✓	
	D. Cross-training should be provided to ensure that a second appropriate staff member could carry out the responsibilities of the function.				✓	
40	<b>Community Development Lacks Written Program Goals For The Home Repair Loan Program.</b>					
	A. Establish a written set of program goals for the Home Repair Loan Program which are specific, relevant, and measurable goals for the program.				✓	
	B. Evaluate the degree of success of such goals at least annually.				✓	
41	<b>Community Development Policy Does Not Require A Written Marketing Plan For The Home Repair Loan Program.</b>					
	A. Formally document in writing a Marketing Plan which addresses the Home Repair Loan Program as well as the other CD programs to include:  • Documenting who (an agency or the CD Department) has responsibility for paying marketing costs and performing marketing tasks of the Home Repair Loan program.  • The plan should include, by program, the				✓	

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	types of media to use and address the cost effectiveness of the media type(s) planned.					
	B. Either add a line to the application to ask how the applicant heard about the program or have the agency gather and document the information in the file on a separate document.				✓	
42	<b><i>Marketing Responsibility For The Home Repair Program Loans Is Not Clearly Established.</i></b>					
	A. Document in writing who has responsibility for paying marketing costs and performing marketing tasks for the Home Repair Loan program.				✓	
	B. If the agencies processing applications for the Home Repair Loan program have some financial or operating responsibility, this should be documented in the scope of services paragraph of the Specific Performance Agreement between CD and the agency.				✓	
	C. This information should be made part of the written marketing plan for the CD program.				✓	
43	<b><i>Community Development Has Not Established Adequate Procedures At The Agency Level For The Home Repair Loan Program.</i></b>					
	A. Improve the guidelines in the Training Manual by preparing more specific procedures on monitoring of construction projects for the Home Repair Loan program. The procedures				✓	

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		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	<p>should include:</p> <ul style="list-style-type: none"> <li>• The frequency or interval of inspections.</li> <li>• Indicate the forms to be completed and signed.</li> <li>• Include a requirement for both the homeowner and inspector to sign the inspection forms.</li> </ul>					
	B. Provide a current Pinellas County CD Agency Training Manual to the Homes for Independence agency, once the construction monitoring procedures are updated.				✓	
	C. Training sessions for the agencies should be properly documented and include an outline of the topics covered.				✓	
44	<b><i>Denied Application File Retention Could Be Improved For The Home Repair Loan Program.</i></b>					
	A. Confirm with the agencies that the agencies are saving the files not submitted to CD for the five year retention requirement.				✓	
	B. Add the requirement for retention in the Agency Training Manual.				✓	
45	<b><i>Construction Progress Interim Inspections Are Not Signed By Inspector For The Home Repair Loan Program.</i></b>					
	Management put in place a formal written procedure for the agencies requiring the signature of the inspector on the draw form and have the agencies revise their form for the signature	✓				

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OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	requirement.					
46	<b><i>The Processing Of Community Development Employees Travel Vouchers By The HFA Has Inadequate Internal Controls And Bypasses The County Finance Pre-Audit Function.</i></b>					
	CD management stop authorizing CD employees and the HFA stop processing, Travel Reimbursement Vouchers and Local Mileage Reimbursement for HFA related travel for County employees. The vouchers must be processed through the County Finance Department with the HFA reimbursing the County for the expenses.				✓	
47	<b><i>The HFA Procedures For The Processing Of Two Credit Cards Held By Community Development County Employees for HFA Expenses Have Inadequate Internal Controls.</i></b>					
	CD management stop authorizing CD employees to have and use HFA credit cards. As County employees, they should be using the County Purchasing Card. The payment of the invoice must be processed through the County Finance Department with the HFA reimbursing the County for the expenses.				✓	

## Background

### Community Development:

The Pinellas County Community Development Department is responsible for a variety of housing, neighborhood, and community development programs within the County, administering funds granted by Federal, State and local governments. The department also operates the County Connection Centers, which were established to educate and inform citizens regarding issues related to County services, codes, public safety, and planning. The Connection Centers also serve as liaisons to unincorporated area neighborhoods.



HOME



PINELLAS COUNTY, FLORIDA



Through contracts with nonprofit organizations, CD offers down payment assistance for lower and moderate income homebuyers, low interest rate loans for home repairs, rental property improvements, and various housing services. Some housing services are provided by for-profit organizations. Working with residents and cities, CD also plans and implements revitalization and enhancement projects in neighborhoods and Community Redevelopment Districts. Also, CD administers Neighborhood Enhancement Grants for unincorporated County neighborhoods.

The Community Development Department website states that its "mission is to help residents of Pinellas County achieve sustainable living through decent housing, suitable living environments and expanded economic opportunities." Its vision is that, "Pinellas County is a place where all residents have the opportunity to live in decent neighborhoods with access to quality affordable housing, pleasing streetscapes and open green spaces, sound infrastructure, ample economic opportunities, convenient public facilities and access to all the services vital to maintaining a safe and sustainable community."

Community Development represents the County as the lead agency in a consortium of unincorporated areas and municipalities within the County. The consortium's plan is to meet identified housing needs, revitalize distressed neighborhoods, assist persons with special needs, and upgrade blighted areas. Funds are used from the Federal Community Development Block Grant Program, Federal HOME Investment Partnership Program (HOME),

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the State Housing Initiatives Partnership Program (SHIP), and the Federal Emergency Shelter Grant, as well as from local government. Budgeted expenditures for the past two years are presented in the table below.

<b>CD COST CENTER EXPENDITURES BEFORE ALLOCATION OF ADMINISTRATION COSTS</b>	<b>FY 2007 BUDGET</b>	<b>FY 2008 BUDGET</b>
CD Administration: Administrative and operating expenses before allocation	\$3,075,540	\$3,478,780
Expenditures funded with CD's Federal grant dollars	\$6,742,660	\$5,169,650
Expenditures funded with CD's State grant dollars	\$12,506,000	\$10,916,090
Community Housing Trust Fund: County funds for development and preservation of affordable community housing	\$10,000,000	\$7,149,110
County Connection Centers and other neighborhood based programs	\$941,610	\$679,110
Other allocation of administrative costs	\$6,730	(\$214,910)
<b>Totals</b>	<b>\$33,272,540</b>	<b>\$27,177,830</b>
<b>Total Permanent Positions</b>	<b>37</b>	<b>41</b>

Affordable Rental Housing Development – This program offers deferred payments and/or reduced interest loans to developers that will be used to assist with down payments, closing costs, construction, rehabilitation, and soft costs associated with the development of affordable rental housing. The amount of funds contributed to the project is directly connected to the purpose of providing rental units that are affordable to low income tenants.

Funds can be used to assist projects involving:

- Acquisition of standard units
- Acquisition and rehabilitation
- Rehabilitation
- New construction

Properties may be privately or publicly owned. Projects may include units in one or more buildings that are under common ownership, management, and financing. Funds are provided for a specific number of units. Not all units within a building, development, or project need to be included in the assisted project. Only units receiving funds are considered "assisted units." Minimum and maximum expenditures are calculated on the basis of assisted units and not on the total number of units within a development, unless all units are to be assisted units. In order to promote mixed income development, Pinellas County will give priority to projects in

which assisted units will constitute no more than 40% of the units within a multifamily development.

Strict occupancy and rental rate controls apply to assisted units. For the period of time established by the program, the amount of rent that can be charged and the tenants who can be served in assisted units are subject to strict controls. In addition, assisted units must be maintained in good condition. Each year during the term of the program restrictions, project owners or managers must provide income and occupancy data for tenants in assisted units. The County is responsible for the accuracy of the data, and therefore, has the right to verify information provided by the owner or manager. In addition, the County must physically inspect assisted units each year during the restriction period. A number of State and Federal rules apply to this program, as well as to other housing programs. Pinellas County is responsible for ensuring that all projects meet all applicable requirements.

**Home Town Heroes Program** – The purpose of the Home Town Heroes program is to help expand home ownership opportunities for essential employees. This program is made available through the Board of County Commissioners (BCC) and is implemented through a contract with various community based processing agencies. It is available to all income eligible, full time employees of selected military service, public service, and health organizations who purchase homes in any of the eligible areas. The program provides financial assistance in the form of interest free, second mortgage loans with repayment deferred for five years. The purchase price of the property cannot exceed \$190,000.

Single-family detached houses, townhouses, villas, cooperatives, and condominiums are eligible types of housing. Rental and income-producing properties are not eligible. The home must serve as the applicant's primary residence; vacation homes and second homes are not eligible. This program does not displace existing renters; seilers must certify that a renter did not occupy the property at the time of the contract signing. Applicants must be full time employees of the Pinellas County school system, police, fire, emergency medical service personnel, hospital workers, 911 dispatchers, assisted living facility employees, pharmacy technicians, or active duty/reserve military personnel. Retirees of these job classes are also eligible.

The maximum loan amount is \$20,000. Repayment is deferred for five years. Beginning in year six, the loan is repaid at 0% interest, amortized over a maximum of 20 years. Although this is primarily a down payment assistance program, loan funds can be used to pay closing costs equivalent to three percent of the purchase price. Applicants must contribute a minimum of two percent of the purchase price; half of that amount may be gift funds. Applicants must qualify for a first mortgage, demonstrating the ability to meet standard underwriting and lending guidelines. However, no assistance will be provided if the applicant's first mortgage commitment carries excessive fees, adjustable rates, balloon payments, or interest rates higher than HFA rates for similar loans.

The County's loan amount combined with the first mortgage amount cannot exceed 105% of the value of the property. Down payment assistance loans are not assumable. Outstanding

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balances are usually due and payable if the borrower sells, rents, leases or otherwise vacates the residence.

**Home Town Heroes Plus** – The purpose of the Home Town Heroes Plus program is to help expand home ownership opportunities for essential employees. This program is made available in cooperation with, and funded by, local governments. It is available to all income eligible, full time employees of selected military service, public service, and health organizations who purchase homes in any of the eligible areas. The program provides financial assistance in the form of interest-free, second mortgage loans with repayment deferred for five years. The purchase price of the property cannot exceed \$263,250.

Single-family detached houses, townhouses, villas, and condominiums are eligible types of housing. Rental properties, vacation homes, second homes, and mobile homes are not eligible. The home must serve as the applicant's primary residence. This program does not displace existing renters; sellers must certify that a renter did not occupy the property at the time of the contract signing. Applicants must be full time employees of the Pinellas County school system, police, fire, emergency medical service personnel, hospital workers, 911 dispatchers, assisted living facility employees, pharmacy technicians, or active duty/reserve military personnel. Retirees of these job classes are also eligible.

The maximum loan amount is \$25,000. Repayment is deferred for five years. Beginning in year six, the loan is repaid at 0% interest, amortized over a maximum of 30 years. Although this is primarily a down payment assistance program, loan funds can be used to pay closing costs equivalent to three percent of the purchase price. However, no assistance will be provided if the applicant's first mortgage commitment carries excessive fees, adjustable rates, balloon payments, or interest rates higher than HFA rates for similar loans. The loan amount combined with the first mortgage amount cannot exceed 107% of the value of the property.

**Home Repair Loan Program** – This program is made available through the Pinellas County Board of County Commissioners (BCC). The purpose of this program is to preserve the existing housing stock and encourage neighborhood improvement efforts. The program provides home repair loans to low and moderate income homeowners at interest rates ranging from 1% - 5% depending on household income and family size. The program helps with the home repair process including identifying needed repairs, developing work plans, helping the owner to review proposals, and making sure the contracted work is completed before funds are released to contractors.

Applicants must meet income guidelines and either currently occupy the home being rehabilitated or plan to occupy the home immediately after repairs are completed. Properties may be located either within the unincorporated area of Pinellas County or within the municipal boundaries of one of the cooperating cities. At the time of loan closing, title must be recorded in the applicant's name in the Pinellas County Official Records. The property may be a single family structure, or manufactured home, occupied by the applicant. Rental and income producing properties are not eligible. Mobile homes built prior to 1976 are not eligible.

Housing Finance Authority:

The HFA was created by County Ordinance Section 3-386. Division #8, Section 2-389(a), created the HFA and Section 2-389(b) gave the BCC power over the HFA. In addition, Section 2-390(b) (1) states the HFA shall:

1. Employ such agents and employees, permanent or temporary, as it requires, and shall determine the qualifications, duties, and compensation of those agents and employees.
2. Delegate to an agent or employee such powers or duties as it considers proper.

There is an Administrative Services Agreement between the County and the HFA to provide resources and certain administrative and support services that will enable the HFA to more efficiently meet the public purpose. The HFA has no employees, and therefore, they use CD employees as agents to perform the operational tasks of the HFA. The Bureau Director of CD also acts as the Executive Director of the HFA.

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# STATUS OF RECOMMENDATIONS

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This section reports our follow-up on actions taken by management on the Recommendations for Improvement in our original audit of Community Development (CD) and the Housing Finance Authority (HFA) Administrative Service Agreement. The recommendations contained herein are those of the original audit, followed by the current status of the recommendations.

## **I - General Administrative/Other**

### **1. *Management Withheld Information, Avoided Supplying Detailed Information Covering CD Processes And Put In Place An Audit Interface Process That Limited Auditors From Obtaining Information In An Effective Manner.***

We have been prevented from receiving free access to staff and management to obtain information required to perform a cost effective audit on the risk areas of the CD Department operations. In addition, responses to information requests presented in written format or in formal scheduled meetings held with CD were designed to supply as little information as possible instead of helping Audit Services understand the CD process.

It was required that the CD liaison and/or upper CD management be present at every meeting held, even when staff was present who had the responsibility to perform the procedure. This requirement prevented the open and free flow of information on how the procedure is actually performed versus how management thinks/wants the procedure to be performed, affecting the proper evaluation of internal controls.

These unusual restrictions and requirements resulted in a waste of tax dollars because of the increased costs incurred of at least \$117,392 as a direct result of audit-related practices instituted by management. The cost to perform the audit as related to time spent by the Division of Inspector General (IG) was substantially increased by management's attitude, which prevented the performance of standard audit processes as performed in other County Departments.

The direct impact of the restrictions instituted by CD management increased direct audit time by 326 hours and caused additional Audit Procedure Performance Time Budget over-runs of 1,008 hours.

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<b>IMPACT OF THE RESTRICTIONS</b>	
Additional Direct Audit Hours	326
Additional Indirect Audit Hours	1,008
Total Audit Hours Impacted	1,334
Total Increased Cost	\$117,392

In addition, having at least two members of CD management present at any information gathering meeting, versus just the required staff member that performs the service, wasted CD departmental resources that were not needed and took away from their other duties and responsibilities, which should have been CD's primary focus.

The direct time was affected by:

- 1) Requiring formal meetings to ask a question.
- 2) Emailing questions and receiving email answers versus direct discussion with the staff.
- 3) Having to perform research when management elected to limit information.
- 4) Having Audit Services obtain information from other sources versus supplying the readily available information.

The indirect time was affected by:

- 1) CD's lack of written policies and procedures.
- 2) Conflicting and misleading information received.
- 3) Inadequate documentation.
- 4) Inadequate work space for the Audit Services staff.
- 5) Slowness of management responses to questions.

Listed below are details of the issues:

- A. **Request for Information/Questions** – The CD Director put in place a process that required IG to formally request a meeting through a liaison to obtain information on CD processes, including asking any questions of CD staff or the management team. This process was time consuming and had a major impact on increasing the time needed to complete the audit fieldwork. The process put in place by the CD Director was unusual and differs from other audits conducted with County Departments' interface with the Clerk's IG Audit Services' process. We consider this procedure as "passive cooperation" directed at preventing the performance of a proper audit on the CD Department in their risk areas.
- B. **COMDEV Application** – It appears management intentionally did not supply the information about the loan database. In the preliminary audit process, we requested information on the automated applications. Management made no effort to help the Division of Inspector General understand the automated application present. We requested a "list of mainframe application software used in the management of the contracts/programs and related expenditures." We

also requested CD to include any "workstation/server applications as well as any being supplied by a contractor or other entity outside the County." Management's response stated:

"Clerk's Financial System and Community Development Oracle Tracking (CDOT)."

Management made no effort to inform IG what the COMDEV Application contained and what information was available in addition to the financial sub-ledger used to track financial transactions. We only found out about the system from other means. This system was directly related to our audit, and its existence was inappropriately withheld by CD management.

- C. **Community Development Reports** - Management did not supply the information about reports that are available in the COMDEV Application that includes the Financial Sub-ledger and the Loan Database. As in paragraph B above, a request for information was made in our preliminary audit process. We requested:

"Copies of reports provided to Community Development Management and frequency of the report submission. For all reports, please list the purpose of the reports."

The management response was:

"None"

This is a false statement. Community Development performed a monthly reconciliation of the Financial Sub-ledger monthly. To perform this procedure, CD runs a number of reports with the output in spreadsheet format. We requested and received the supporting reports on August 13, 2008.

In a meeting with management on November 4, 2008, we were informed that there was a System Manual called "CDOT" (Community Development's Oracle Tracking System) that covers available reports and activity screens that contain loan information. Prior to this information being received, we asked if there was a User Manual for the COMDEV Application and was told, "No," once again providing misleading/false statements to the Auditors.

- D. **Agreements** - When we discussed contracts with management, once again CD management intentionally failed to inform us of the presence of the "Specific Performance Agreements" used by CD to obtain services. Through our analysis of CD expenses, we became aware of their existence. We requested a list of the Agreements from management and were informed that CD did not have a list. Audit Services questions how CD Management is able to properly oversee their operations if they do not have the information on their open Agreements. At the

end of the audit fieldwork, management did give Audit Services a list of the Agreements.

- E. **Contracts** – Community Development management, when asked for a list of contracts that the department had open and oversight responsibility for, stated:

“That they did not have a list, and we should get the information from purchasing.”

It is not logical that CD management did not have a list of the four contracts since the department would have to budget for the contract expense. Audit Services obtained the information from the Purchasing website. Also, CD did not inform us of their “Specific Performance Agreements”, which are contracts that do not go through Purchasing. Purchasing would generally be unaware of these types of contracts.

- F. **Limitation of Audit Services**, free access to data and information to the COMDEV Application - The CD Director put in place a procedure, during the performance of the audit fieldwork, with Business Technology Services (BTS) to limit free access to application (read only) data and information maintained by BTS without requesting the access and obtaining approval from the User Department. The Division of Inspector General has had the authority since May 9, 1988 to request access to information and data directory (read only) from BTS without informing the User of the request for audits and investigation information. Audit Services considers the action of the CD Director as another act to limit our ability to perform an independent audit of the CD operations.

- G. **Management Reports** - We made several requests for copies of status/performance reports that CD issues on a regular basis, either monthly, quarterly, or annually to:

- CD management
- Assistant County Administrator responsible for the CD Department
- County Administrator
- Board of County Commissioners

The CD processes are not generally transparent and we believe these reports might have shed some light on the areas we were examining. Also, without these reports, we could not determine what CD was reporting to these areas about their performance. Without the reports, we could not verify any of the data, or determine if it at least looked reasonable.

- H. **Physical Accommodations** - CD would only provide a 9.5 by 9.5 foot office for the four auditors working at this facility; even though we observed that there were at least two empty offices (both larger than 9.5 by 9.5 feet) and a small

conference room that was rarely used. We had to purchase a fold-up picnic table and folding chairs for this office. Our request to exchange their office credenza, which was being used as a work station without space to place our legs underneath, with an unused two by six foot table, was ignored/denied by CD management.

- I. **Access to HFA records Maintained by CD** - Community Development has tried to prevent Audit Services access to HFA Accounts Payable records that impacts CD employee's usage of HFA funds. The Director of CD (acting as Executive Director of the HFA) refused to grant access to HFA financial records maintained by a CD staff member. The CD staff is receiving reimbursement of expenses directly from the HFA for services rendered to the HFA, bypassing the County Finance pre-audit function for the payment of business related expenditures. We also requested access to the records from the Chairman of the HFA, and access was not granted, apparently based on his discussion with the Director of CD (acting as Executive Director of the HFA).

After refusal of the records, a Public Records request was presented to the Bureau Director of CD (acting as Executive Director of the HFA). We noted the following related concerns:

- The response from the Bureau Director of CD stated he was not the custodian of the records requested. This is not a correct statement. Pinellas County has an "Administrative Service Agreement" with the HFA dated September 29, 2003. The services related to the CD staff performance recorded in the Agreement are:

Section 1 - Facilities and Services to be Provided by the County; "The County shall provide, by lease or purchase, such facilities, equipment, supply promotional expenses, personnel and administrative services as the HFA determines is reasonably necessary for the proper and efficient operations of the HFA..." This service is being supplied by the CD Department.

Section 1(c)(ii) - Other Personnel; "The County shall also furnish the services of other personnel required for the operation of the HFA. All personnel furnished by the County pursuant to this subsection shall be either employees or independent contractor of the County as determined by the County to be appropriate." The CD Department is the County entity supplying the personnel.

The HFA has no employees to support their operation, but uses CD staff to perform their required functions. The Bureau Director of CD is supplying the staff, maintaining, and storing the HFA financial records requested. In addition, in an email from CD management, we asked, "Who is maintaining the financial records for the HFA and where they are stored?"

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The answer received was "a CD employee". Other than the Service Agreement between the County and the HFA, no agency agreements with the HFA are present. Since County employees are maintaining the HFA financial records and the County employees report to the Bureau Director of CD, the response received is not proper.

- The response to our public information request from the Executive Director of the HFA granted Audit Services access to the requested financial records. However, the Memorandum contained statements that we consider inappropriate, stating that the request would be processed "in the same manner as any other member of the general public." The Division of Inspector General of the Clerk's Office is not the "general public." We are requesting access to records of the HFA through a Public Records request because we have been refused access to the records. As for the "independent entity" status of the HFA, in some areas they function as an Agency used by CD covered by an Administrative Service Agreement with the County. Based on the structure (all staff are County employees), the HFA would not qualify as an independent contractor. Stating the HFA can "impose a service charge associated with the labor costs of the personnel of the agency for clerical and supervision assistance" is also inappropriate.

Management should support the performance of the audit and supply easy access to information, data, and staff performing the service.

Management's attitude was passive cooperation with the intent of preventing Audit Services from obtaining information to perform the audit procedures. The problems were discussed with the Department Director during the course of the audit; however, he refused to change his position.

As a result, there were major increases to the cost of performing an adequate audit of the CD Department, limiting our efficiency and effectiveness. Additionally, the result was a limitation in the scope of our work, which could have caused us to not detect other deficiencies, irregularities, or improprieties that may exist.

**We Recommend** CD management fully and openly cooperate with all future audits and auditors.

**Status:**

**Partially Implemented.** No change in Management position. Management acknowledges and appreciates the improved clarity that the follow-up audit documents contain. The audit interface process with the IG staff during the management review with Management Partners in 2011 and during the follow-up audit in 2012 has been a more positive experience than the initial 2008-2010 audit. Management is committed to continuous improvement and is unconditionally supportive of monitoring and auditing efforts by grant funders, external and internal auditors

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## **2. *There Is A Weak Oversight Process For The CD Services Being Delivered To The Public.***

There is weak internal and external oversight for the CD programs relating to BCC approval, reporting at the program level, performance measures, and policies and procedures that govern processes. General business practices present in other County Departments are not present in the CD Department. The business process is structured to ensure that grant funding is used by the County in the required time frame and the expenditures are in compliance with grant requirements. That is a key control. However, State and Federal Grants are designed with broad guidelines to give the recipients flexibility to design specific programs needed by their individual communities. Instead, CD has not designed specific policies and procedures. Instead, they have chosen to be limited only by the broad guidelines of the grants. The County is responsible to develop programs that target the individual needs of Pinellas County. This CD area is loosely structured and not formally reported on by the Department. The following issues are present:

- A. There is no BCC approval process for the origination, changes in terms, and forgiveness of Mortgage Loans based on the dollar amount of the transaction. This oversight issue is especially apparent in the large loans present in the Rental Housing Development Program. The documented approval at the CD Department for the Housing Development Projects is found to be lacking. This procedure is in direct contrast to the CIP Project process that uses Specific Performance Agreements approved by the BCC for the authorization.
- B. There is a lack of planning and reporting results at the program level that delivers the services to the public. The formal planning and reporting is at the grant level that is too high to support proper planning, monitoring, and reporting results for the department performance. The issue leads to a lack of effective external monitoring and oversight of the CD Department.
- C. There is a lack of accurate and reliable performance measurement data that is available to measure the performance of the department other than the overall compliance to spend grant funding properly.
- D. There is a lack of formal and enforceable policies and procedures for the CD operations. It appears that management wants flexibility to make decisions on ad hoc basis without documenting justification.

Acceptable business practices require County departments to establish effective controls, oversight, and reporting to ensure that strategic planning, department goals, and objectives at the level that the service is provided to the public are in place and operating.

The department's major attention is at the grant compliance level, and operation's flexibility takes precedence over structured, established documented processes and status reporting.

The CD business process is at the grant level and does not extend to the program level where the services are delivered to the public. The review and approval process for mortgage loans does not require the review and approval by the BCC at defined dollar levels.

**We Recommend management:**

- A. Establish a formal approval process to be approved by the BCC for establishing dollar amount levels of approval for origination of mortgage loans, changes in terms and forgiveness of loans.
- B. Establish a planning, tracking, and reporting performance process at the program level.
- C. Establish performance criteria that relate to the service being provided to the public (i.e., loan processing).
- D. Develop formal policies and procedures for the operation of the CD Department, including but not limited to, the areas covered in the Opportunities for Improvement presented in this report.

**Status:**

- A. **Partially Implemented.** No change in Management position; however, Management concurs with the recommendation by Management Partners during management review to create a loan review committee. Creation of a loan review committee is underway and nearing completion.
- B. **Not Implemented.** Management did not address the IG recommendation in their response. There is no commitment to establishing planning, tracking, and reporting at the program level.
- C. **Not Implemented.** Management did not address the IG recommendation in their response. There is no commitment to establishing performance criteria for the services provided to the public.
- D. **Not Implemented.** Management did not address the IG recommendation in their response. There is no commitment to change or develop new policies and procedures.

### ***3. Community Development Is Allocating General Administration Costs Of The Department To The County Connection Cost Center.***

Community Development allocated to the County Connection Cost Center staff payroll costs covering the Fiscal Year 2007-2008 of \$241,857 that represents General Administration Costs for the CD Department. The General Administration Costs for the CD Department seems to also have been budgeted in the Connection Cost Center. The total amount actually charged to the Connection Cost Center for Fiscal Year 2007-2008 was \$315,077. The Connection Centers' 2007/2008 budget was \$788,951, of which \$315,077 represents the administrative charges allocated by the Community Development Department. In addition, 77% (\$241,857) is CD General Administration Costs (Personal Services Costs) allocated to the Connection Centers.

Charging General Administration Costs to the Connection Cost Center misrepresents the cost for operating the Connection Centers. Community Development management stated, "Functions could include (but are not limited to): Housing Development up to the point of funding determination/commitment letter, technical assistance, SFA participation, portfolio management, cross training, website design and maintenance, performance evaluations, pay actions, etc." The tasks being charged to the Connection Cost Center are not related to its operation, but should be allocated to the grant administration functions. The manager of the North County Connection Center, who has been with the Centers since inception, was not able to provide any insight on what CD Administration provided in support other than standard clerical support (payroll, etc.).

General Administration Costs for the CD Department should be allocated to the program related to the function or allocated to all programs in some logical manner that relates to resources used by the program.

This cost should not be allocated to the Connection Centers' function with no documented support. Community Development management is not properly representing General Administration Costs for the department, but instead, is using the Connection Center budget to supplement CD General Administration Costs.

As a result, the operation cost for the County Connection Centers is being overstated by \$241,857 for the 2007/2008 timeframe. The Budget for Fiscal Year 2008/2009 is also being overstated by the General Administration Costs of the CD Department.

Note: Opportunity for Improvement No. 5 recommended the elimination of the Connection Centers, and because of the potential impact on the Fiscal Year 2009/2010 County Budget, we issued an interim report on April 13, 2009. Management did eliminate the funding and closed the Connection Centers. Therefore, charging General Administration Costs to the Connection

Cost Center should no longer be an issue; however, it was important to note as it misrepresented the cost for operating the Connection Centers.

**We Recommend** management:

- A. Allocate only the General Administration Costs of the CD Department to the CD grant administration functions.
- B. Ensure that all General Administration Cost allocations have supporting documentation.

**Status:**

A & B **No Longer Applicable.** The Connection Centers have been closed.

#### ***4. Community Development Accounting Policy Does Not Record Deferred Loans On The County General Ledger Until The Loan Reaches The Start Of The Repayment Period.***

Community Development does not record on the County General Ledger the amount of deferred loans generated by the funding process of grant and County funds. In addition, there is no General Ledger deferred loan account that functions as a control account to ensure the deferred loan amount reported on the COMDEV application (inventory records) is correctly stated on the database. The Deferred Loan Report, as of February 24 2009, lists \$61.2 million (Fund Detail Amount) as deferred loans on a management report. However, the Fund Detail Amount seems to include loans that are in repayment. The Fund Detail Amount, less the loans in repayment, is not included in the County's financial statements.

Current process: When the mortgage is closed, the funding source is debited as an expense and cash is credited for the check issued to the Title Company or agency. When the deferred repayment time is reached, the mortgage is sent to SunTrust for processing, deferred receivables are debited, and deferred revenue is credited. There is no General Ledger entry recording the deferred mortgage; therefore, the deferred loan is not recorded on the County General Ledger for the years repayments are deferred. When the deferred loan project is complete, the loan is reported to the grant funding source. Deferred loans with projects in progress will not be reported to the grant funding source until the project is completed. Therefore, deferred loans with projects in progress are not recorded on the County General Ledger or reported to the funding source. The deferred time is set when the deferred loan is closed, and these deferred periods can last from 5 to 20 years. Based on the funding source, CD management may, at their option, forgive part or the entire deferred loan amount. However, the loans are mortgages granted by CD on behalf of Pinellas County and liens for the mortgage are filed with the Clerk of the Court. The deferred loans are assets of the County when the mortgage is closed by the parties; not when the actual repayment finally commences years later.

Proper accounting procedures require that a General Ledger transaction be recorded for all new deferred loans, forgiveness of deferred loans and the movement of the deferred loans to repayment. In addition, a deferred loan General Ledger control account reflecting the amount of the deferred loans outstanding should be required with the deferred loan inventory maintained in the COMDEV database being reconciled to the General Ledger on a monthly basis.

Community Development management has not put into place proper internal controls for recording deferred loans granted by the County. Management stated the following reasons for not recording deferred loans on the General Ledger:

- The reason why CD does not add deferred loans to the accounting records until the deferral period has expired is that it "has been done that way for the last 20 years."
- When we asked past Community Development management personnel, they told us that the Clerk's Finance Department instructed them to use this timing.
- Analyzing the situation themselves, current CD management recommended that they continue to delay recording deferred loans until the deferral period expires. These loans are serviced by a third party. When the loans start to be serviced by a third party, independent loan reports support the balance that is recorded on the General Ledger.
- In addition, it is not always known when these loans are made if they will be forgiven. Management has the prerogative to turn all these loans into grants prior to the deferral period expiring. Recording these loans prior to the expiration of the deferral period will inflate receivables in the event management exercises the forgiveness option.

We reject all of CD management's reasons for not recording deferred loans on the County General Ledger. The deferred loans are County assets even if CD has the ability to forgive, write-off, or modify the terms of deferment. Management is responsible for an adequate system of internal controls. The current process for deferred loans bypasses basic accounting controls that: transactions are authorized, transactions are properly recorded, assets are compared to accounting records, and assets are verifiable. Deferred loan inventory records currently are not subject to dual controls normally achieved via a General Ledger accounting at the time of loan closings.

**We Recommend management:**

- A. Validate each deferred loan recorded on the COMDEV Deferred Loan Report to the CD Lien Files for correctness. Determine the loans that are still deferred (not in repayment). If needed, adjust the Deferred Loan Report/database to break out loans that are in repayment and loans still deferred.
- B. Develop formal written procedures that record each transaction for deferred loans on the County General Ledger.
- C. Require a monthly reconciliation be performed between the inventory record (Deferred Loan Report) and the General Ledger.

**Status:**

- A. **Partially Implemented.** Ongoing validation of loans listed on the deferred loan report continues.
- B. **Acceptable Alternative.** The Clerk's Finance Division consulted with the County's external auditors (Ernst & Young) who recommended disclosure of the deferred loan information in the footnotes of the CAFR. This recommendation was implemented in the Fiscal Year 2009-2010 CAFR and remains the standard.
- C. **No Longer Applicable.**

**5. The \$789,000 For Community Development North And South Connection Centers Duplicates Existing County Services.**

**Community Connection**  
CONNECTING CITIZENS WITH COUNTY GOVERNMENT **CENTERS**

We have the answers, call (727) 453-7394



**North County  
Connection Center**  
Clerk of the Circuit Court North County  
Branch  
29582 US 19 North, Room 100  
Clearwater, FL 33761



**South County  
Connection Center**  
Lealman Park  
3875 54th Avenue North  
St. Petersburg, FL 33714

**Status of Recommendations: Follow-Up Audit of  
Community Development Administration and Selected Programs**

The Connection Centers are providing limited and duplicative services to the citizens of Pinellas County. They have a staff of six, and their associated expenses are funded by the General Fund and not by Federal and/or State funds. The Total Program Cost budgeted for the Connection Centers is \$819,810 in Fiscal Year 2009. The line-item detail follows:

EXPENSE CATEGORY	FISCAL YEAR	FISCAL YEAR
	2007-08	2008-09
	ACTUAL	BUDGET
Executive Salaries	\$153,262	\$128,440
Regular Salaries & Wages	157,659	163,710
Overtime	123	0
Employee Benefits	113,693	108,270
<b>Sub-Total Personal Services</b>	<b>\$424,737</b>	<b>\$400,420</b>
Other Contract Services	12,799	30,000
Intrgov Svcs-Risk Financing	5,960	6,630
Intrgov Svcs-Fleet Ops & Maint	3,306	3,120
Intrgov Svcs-Fleet Vhcl Rpl	8,240	7,890
Intrgov Svcs-CD Admin	315,077	285,170
Travel and Per Diem	1,464	2,100
Communication Services	4,762	14,080
Transportation	1,270	15,000
Rentals and Leases	3,458	19,000
Repair & Main Services	29	1,000
Printing and Binding	331	10,500
Promotional Activities	0	17,010
Other Current Chgs & Obligat	672	0
Office Supplies	6,846	2,890
Books, Pub & Memberships	0	5,000
<b>Sub-Total Operating Expenses</b>	<b>\$364,214</b>	<b>\$419,390</b>
<b>Total Program Costs</b>	<b>\$788,951</b>	<b>\$819,810</b>

We noted the following during our review:

- Total actual Fiscal Year 2007/2008 Connection Centers' "Actual Expenses" (Personal Services and Operating Expenses) is \$788,951. This includes administrative costs and allocations.
- For 2007/2008, \$473,874 of the total expenses of \$788,951 represents the direct operating costs of the Connection Centers.



**Status of Recommendations: Follow-Up Audit of  
Community Development Administration and Selected Programs**

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- For 2007/2008, \$315,077 of the \$788,951 represents administrative charges allocated to the Connection Centers by the Community Development Department. In addition, 77% (\$241,857) of the 66% is CD General Administration Costs (Personal Services Costs) allocated to the Connection Centers.

The mission of the Connection Centers is to assist citizens in obtaining services from County government. The typical requests of citizens include:

- Homestead information
- Information on financial assistance
- Contractor lien information
- County health services
- Trapped animal
- School Bus late
- Road construction update
- Driver license information
- Utilities' traffic and lighting
- Sheriff's Office

It appears most of the areas dealt with by the Connection Centers' personnel has little, if anything, to do with the mission and activities of the Community Development Department. By organizationally placing this function within CD, time by CD staff is used on this activity rather than activities which would advance the true mission of the department.

We also noted that CD is charging an extraordinary amount of administrative costs to this activity. Normally, administrative costs of programs should be less than 20% (about \$95,000) of "Direct Program Costs." However, in this instance:

- CD's administrative costs charged to the program are 66% (\$315,077) of "Direct Program Costs."
- In addition, 77% (\$241,857) of the 66% is CD General Administration Costs (Personal Services Costs) allocated to the Connection Centers. (This issue is covered in Opportunity for Improvement No. 3.)

Either CD is using an inappropriate level of administrative resources on the Connection Centers, or CD is using this program to bury its administrative costs rather than charge them to other portions of the General Fund or applicable Federal Grants Administration.

One of the keystones of County government is to ensure the citizens are properly informed and have access to government programs, services and staff. However, Pinellas County has the obligation and fiduciary responsibility when providing open access that it is providing it in the most efficient and effective manner as possible.

The Connection Centers' staff provides liaison services between the citizen(s), homeowner associations, etc. in their respective service areas (South County Connection Center services



**Status of Recommendations: Follow-Up Audit of  
Community Development Administration and Selected Programs**

citizen requests south of Ulmerton and the North County Connection Center services citizen requests north of Ulmerton), and Pinellas County Departments. It appears that the main activity of the centers/staff is to provide referral services to appropriate County departments for citizens who call and have issues.

A summary of the two Centers' contact logs from October 1, 2007 through January 31, 2009 classified by type of contact is presented below:

	October 1 2008 to January 31 2009				October 1 2007 to September 30 2008			
Description	Walk In	Internet	Phone Call	Total Contact	Walk In	Internet	Phone Call	Total Contact
Animal Issues	2	2	8	12	0	1	14	15
Business	3	2	43	48	8	2	52	62
BCC	0	5	6	11	2	6	16	24
Circuit Court	31	2	77	110	12	1	61	74
Citizen Assistance	72	6	98	176	72	6	90	168
Code Enforcement	5	4	43	52	26	12	74	112
Communications	0	2	2	4	0	3	5	8
Consumer Issues	3	2	10	15	3	4	25	32
Development Review	15	32	57	104	29	9	98	136
Emerg. Info/Mgmt	4	1	5	10	7	5	22	34
Environmental Issues	2	2	7	11	5	10	29	44
Garbage Collection	0	0	6	6	4	1	16	21
Health Concerns	17	1	17	35	49	2	32	83
Housing Issues	35	12	37	84	18	110	69	197
Law & Legal	12	2	37	51	11	4	54	69
Mobile Home Parks	0	1	1	2	0	1	2	3
Municipality	5	1	43	49	0	8	67	75
Planning Issues	2	6	18	26	5	7	20	32
Property	1	0	7	8	3	4	28	35
PW Highway	6	8	48	62	17	99	98	214
PW Traffic	1	6	18	25	2	8	30	40
PW Other	1	3	2	6	7	18	27	52
Recreation	33	2	57	92	49	7	65	121
School Board	1	1	10	12	1	0	13	14
Tax Collector	14	0	26	40	4	2	27	33
Transportation	1	0	11	12	1	0	6	7
Utilities	157	6	37	200	1389	25	77	1491
Voting	5	3	15	23	9	0	15	24
Coop Extension	0	3	11	14	1	4	14	19
Miscellaneous	17	18	29	64	60	112	75	247

**Status of Recommendations: Follow-Up Audit of  
Community Development Administration and Selected Programs**

	October 1 2008 to January 31 2009				October 1 2007 to September 30 2008				
Description	Walk In	Internet	Phone	Total	Walk In	Internet	Phone	Total	
			Call	Contact			Call	Contact	
Event/Meeting	2	1	1	4	0	0	1	1	
Monthly E-News	0	6	4	10	0	25	1	26	
Various News Items	0	11	1	12	0	2	0	2	
<b>Total</b>	<b>447</b>	<b>151</b>	<b>792</b>	<b>1390</b>	<b>1794</b>	<b>498</b>	<b>1223</b>	<b>3515</b>	
<b>% of Total Contacts</b>	<b>32.2%</b>	<b>10.9%</b>	<b>57.0%</b>	<b>100.0%</b>	<b>51.0%</b>	<b>14.2%</b>	<b>34.8%</b>	<b>100.0%</b>	

The cost per contact for Fiscal Year 2007-2008 is \$224 and, thus far, for 2008-2009 is \$197. Phone and internet contact for the time frame makes up 54.3% of the total type of interface with Utilities making up 34.5% of all contact.

The Connection Centers' staff assists citizens in resolving neighborhood/community related issues (whatever they may be) by determining the appropriate avenue and County department that can address the issues. One Connection Center is located in the northern section of the County, and one is located in the southern section.

From our review of the information brochures, newsletters, website, etc., they appear to be primarily a reiteration of materials currently provided by County departments.

The Connection Centers are providing unnecessary and duplicative services (costing \$788,951) that are currently being provided to the citizens of the County in a variety of ways.

1. The County has a Contact Us and Department Help site/links in which citizens can directly contact departments with issues and concerns.
2. The County also has direct links to each County department and other County governments which can help citizens.
3. County Phone Directory on Internet Site.
4. The County has a very informative, detailed, and easy interactive Internet site which citizens can use.
5. The County has a main information phone number 464-3000.
6. The local telephone books have extensive County numbers listed.
7. The County's television station provides a number of informative programs and website.

The elimination of the Connection Centers would reduce general revenue expenditures by the budgeted amount, free up two County offices and help reduce the County's fleet by two vehicles.

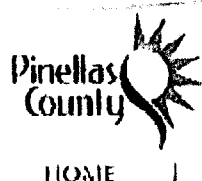
Because of the potential impact on the Fiscal Year 2009/2010 County Budget, we issued an interim report on April 13, 2009, and recommended management eliminate the Connection Centers.

For the Fiscal Year 2009/2010 budget, management eliminated the funding and closed the Connection Centers. We would like to commend management for their swift and immediate analysis and the implementation of our recommendation.

**Status:**

**No Longer Applicable.** The Connection Centers have been closed.

**6. The Arrangement Between The Community Development Department And The Housing Finance Authority Creates A Conflict Of Interest Situation, And The Agreement Does Not Support The Services Rendered By CD And Creates Operational Risk.**



**Housing Finance  
Authority**



The September 9, 2003 Agreement between the Housing Finance Authority of Pinellas County (HFA) and the County for services rendered by CD for the HFA operations represents improper separation of duties between the County Department and HFA's oversight and operations. This arrangement represents a conflict of interest from a practical perspective.

The Director of CD is also the Executive Director of HFA. Community Development has similar housing-related programs, and in fact, the two entities have joint programs in which they do business with each other. When considering programs and their mode of operation, the CD Director is in a position to decide which agency he wants to use for each agency of the program. Since his fiduciary responsibility is not solely with CD or solely with HFA, there is no assurance that he is always acting in the best interest of either entity. If there is a situation that he should want outside of County control and scrutiny, he is in a position to merely have that aspect of the program administered by the HFA. When acting in the capacity of HFA Executive Director, his actions are not under the purview of his normal County supervisor. In his capacity as Executive Director of the HFA, he has also refused to provide us documents of the HFA as requested during part of our audit, saying we have no audit authority over the HFA (even though he and his staff provide all staffing of the HFA on County time, with costs supposedly reimbursed by HFA). He replied to us that as Director of CD, he has no HFA records (even

though HFA records are physically located in CD). We made a Public Records request for certain records, just as any citizen would have to do. For examples of specific situations that present an inherent conflict of interest, see Opportunity for Improvement Nos. 7 and 8.

Disregarding the practical conflict of interest and the inappropriateness of this management and staffing arrangement between the two entities, we noted inadequacies with the contract. The process and procedures in the Agreement are not adequate to define the services to be provided, and statements in the agreement are misleading to the reader. The HFA does not have any employees, but uses the services of CD staff, as agents of HFA, to perform their operations. The expense for the services provided by CD are allocated to and paid by HFA as scheduled. The following issues are present:

- A. In the "Recitals" section of the Agreement, it states, "The County can provide, through its own resources and resources available to it, certain administrative and support services that will enable the HFA to more efficiently meet the public purposes of the act." The statement of "certain administrative and support services" leads the reader to believe that the HFA is performing administration functions, when in fact, CD performs all services for the HFA, including management of programs.
- B. In the Agreement, section 1 states, "During the term hereof, the County shall provide, by lease or purchase, such facilities, equipment, supplies, promotional expenses, personnel and administrative services as the HFA determines is reasonably necessary for the proper and efficient operation of the HFA, and as approved and authorized by the County, which shall include the following..." Again, the statement is misleading; the HFA has no employees, so all services are being supplied by CD. Second, having the HFA determine what services the County will provide, even though the County must approve, is improper.
- C. In the Agreement, section 1(c)(i) requires the County to furnish an Executive Director that will be under the direction of the HFA Board. The Executive Director of the HFA and the Bureau Director of CD is the same person. This structure is a clear separation of duties and a conflict of interest issue.
- D. In the Agreement, section 1(c)(ii) states, "The County shall also furnish the services of other personnel required for the operation of the HFA. All personnel furnished by the County pursuant to this subsection shall be either employees or independent contractors of the County as determined by the County to be appropriate. Except as otherwise required by this Agreement and applicable law, the Executive Director shall make hiring, disciplinary and termination decisions in accordance with County Policy." Granting the HFA Executive Director the oversight authority of County employees is not proper. The CD staff, performing services for the HFA, is acting as agents, not employees of HFA, and can only be supervised and evaluated by a County function.

- E. In the Agreement, section 1(d)(i) and (ii) has the HFA responsible for bookkeeping, accounting services and maintenance of appropriate accounting records and documentation. If the HFA has no employees, how can they carry out the oversight functions?
- F. In the Agreement, section 1(d)(iii) states, "The parties shall perform all other administrative services that effectuate the intent of this Agreement, as mutually agreed by the parties." The key item is "mutually agreed." In order for a service to be mutually agreed upon, there must be formal written procedures developed and available to the CD staff so they have a guide for the way the service is to be rendered. The only procedure supplied by CD Management was the HFA Accounting Procedures dated March 2008. Without written procedures, there cannot be services mutually agreed to.
- G. The terms of the Agreement are for five years with automatic renewal every year without approval. We consider the terms inappropriate. A contract/agreement should be reviewed after three renewals; therefore, assurances can be obtained that the Agreement is still functioning as intended and that there were no major changes for the services required.
- H. The Agreement does not contain the standard audit clause that all County contracts/agreements contain. The County should always have the right to ensure compliance to the Agreement by the agency for the services requested. The lack of an audit clause has facilitated the CD Department Director to state, in the capacity as Executive Director of the HFA, that there is no authority to audit. This situation demonstrates the practical conflict of interest, as the County department head would normally apply pressure to the contractor to agree to the audit. In this case, he would in essence be applying pressure to himself.

The Agreement does not adequately document the services that the County, and in this case, CD must supply under the Agreement. There are no additional Specific Performance Agreements that supplement this agreement, and HFA policies and procedures do not supply the required guidance for the performance of the services (with the exception of the Accounting Policies). We do not find any justification for the structure that the Agreement with HFA has with the County has produced. The cost for CD supplying the staff to run the HFA function is fully allocated and CD receives the reimbursement. Therefore, there is no cost benefit for the structure, and the issues of separation of duties and conflict of interest are not justified.

The County should not enter into agreements with an agency that creates, by its structure, issues of separation of duties and conflict of interest situations. In addition, the structure should be cost justified and benefit the public service being rendered.

The agreement and the presentation to the Board of County Commissioners (BCC) does not contain justification for the structure between CD and HFA that has been in place an extended

period of time. The agreement creates a structure and a process that creates issues and risks that should not be present for the CD operations.

**We Recommend** County management sever the agreement with the HFA or replace the Executive Director and his staff with non-County employees.

**Status:**

**Partially Implemented.** Management Partners' 2011 Management Review of Community Development evaluated the arrangement. The HFA Board took action to continue the Administrative Services Agreement on November 2, 2011. The Board of County Commissioners clarified the Administrative Services Agreement on January 10, 2012 by approving an amendment to the Agreement; the amendment strengthens the chain of authority.

**7. HFA Is Closing On Down Payment Assistance Loans Prior To The HFA Issuing The Letter Of Approval To The Borrower That The Loan Qualifies For The Hometown Heroes Plus Loan Program Offered by CD.**

Community Development staff, acting as an agent of HFA, is issuing a closing check to the closing agent for a down payment assistance loan made by the HFA prior to the CD staff sending the loan approval letter to the borrower. Community Development had instituted this process that has Hometown Heroes Plus loans made by HFA, and after closing, the loan is purchased from the HFA under a CD program funded by SHIP Grant funds.

In our testing of the Hometown Heroes Plus process of a sample of ten loans, we found that six loans had the HFA Letter of Approval for the borrower qualifying for a Hometown Heroes Plus loan being dated after the HFA closing statement date.

Hometown Heroes Plus Application Date	HUD Close Statement Date	First Mortgage Amount	HFA Close Statement Date	Amount	Letter Approval Date	Loan Assigned To CD	Check Requested Date CD to HFA
08/01/07	11/09/07	\$82,621	11/09/07	\$30,000	03/15/08	03/28/08	03/28/08
09/02/08	09/29/08	\$134,662	09/29/08	\$25,000	09/29/08	11/06/08	11/06/08
05/15/07	07/06/07	\$72,900	07/06/07	\$30,000	09/24/07	10/24/07	10/30/07
09/07/07	09/26/07	\$145,450	09/26/07	\$30,000	10/29/07	11/27/07	12/04/07
12/11/07	12/28/08	\$119,700	12/28/07	\$30,000	01/25/08	01/28/08	02/04/08
12/10/07	12/28/08	\$154,000	12/28/07	\$30,000	01/25/08	01/28/08	02/04/08

Community Development, acting as an agent of HFA, should not be issuing a check on behalf of the HFA for the Hometown Heroes Plus program without prior approval that the borrower qualifies for the loan that will be repurchased by CD with grant funds.

There is a lack of separation of duties between CD and the HFA in this process. There is no written procedure approved for the process of the Hometown Heroes Plus loans that flow through both the County Department and the Agency. There is no written agreement between the Agency and CD for the Agency processing loans for the CD Hometown Heroes Plus Program.

The current process has the HFA assuming the risk that the loan will qualify under the CD Hometown Heroes Plus program for financing. The HFA closing implies that the borrower has already been approved for the loan under the Hometown Heroes Plus program. Community Development management did not supply us, even though requested, written authority for the HFA to make loans that will be repurchased by CD under the Home Town Heroes Plus program.

This situation illustrates the types of conflicts of interest that can arise with this type of arrangement between the two entities. If the HFA funds a loan that CD should not buy from HFA, the Department Director would have an inherent conflict of interest in deciding whether CD should go ahead with buying the loan. This conflict of interest situation is discussed in Opportunity for Improvement No. 6.

See Opportunity for Improvement No. 8 for additional issues with the loan process.

**We Recommend** management, acting as an agent of HFA, not close on the Down Payment Loans until the Letter of Approval is issued for the Hometown Heroes Plus loan by the HFA.

**Status:**

**Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to make any changes in the HFA closing process for Hometown Heroes Plus loans.

***8. The Process Of Having The HFA Close Home Town Heroes Plus Loans That Are Repurchased By CD Is Not Operationally Justified.***

The Home Town Heroes' Plus loans for down payment assistance are first being closed (made and funded) by the HFA and at a later date purchased by CD and processed using SHIP funding. There is no legal or grant requirement that prohibits CD from closing the loan themselves without passing the financial transaction through the HFA. The current process was instituted by the Director in his capacity as the CD Director (not in his capacity as Director of the HFA), but there are no written policies and procedures for the HFA/CD function.

Therefore, there is no documentation for justification and approval of the financial flow. Management made a verbal statement that the reason for having the HFA process the loan is the closing can be completed faster. Since CD employees are processing the Down Payment Assistance Loan as agents for HFA, there should be no difference in the processing time for the loan. On the other hand, the processing of the check for closing may be completed faster since the CD employee issues the check for the HFA, but this process bypasses the pre-audit function of the Finance Department for accounts payable transactions. With Finance having a two business day turnaround for checks (from when the check request is received), if there is a delay, the issue is in CD processing the check request moving the transaction to Finance.

Management also stated, "The primary role of the HFA is to eliminate any risk associated with the purchase of the HFA loan by CD." We consider this statement unfounded and not in the best interest of the County. The Down Payment Assistance Loan is processed by CD staff as agents for the HFA. If the loan does not qualify under the Home Town Heroes Plus Program criteria, CD cannot purchase the loan under the SHIP Grant, but HFA now owns a loan. This does not help the County since CD and HFA both are BCC functions. The major issue with this logic is the fact that CD staff is being paid to perform their jobs properly, not to avoid risk of improper processing, whether acting as a CD employee or an agent for HFA.

The process for CD making loans should be based on the best procedure to offer the service to the public or the agencies supporting the public needs. A process should not be implemented to avoid inadequate performance of staff and bypass internal controls.

Community Development management considers the CD operation starts when CD obtains the loan file for repurchase of the mortgage, not when the CD staff, as agents, reviews the loan file received from the HFA Approved Lenders (Banks). We do not agree with this perception of the process. The reason for the current process was that it was put into place by CD for improper operating reasons that are not justified or formally approved.

The Home Town Heroes Plus loans for down payment assistance process involving an agency to close the mortgage that will be purchased by CD at a later date is ineffective and creates additional financial transactions not needed. In addition, the agency (HFA) does not have a loan servicing agreement with CD, and CD management did not supply documentation from the HFA that authorizes the HFA to close on Down Payment Assistance Loans to be resold to CD.

Because of the practical conflict of interest that exists since the Director of CD serves as the Executive Director of HFA (See Opportunity for Improvement No. 6), we have no assurance that the decision to involve HFA was made in the best interest of the County.

**We Recommend** CD management close the Home Town Heroes Plus Down Payment Assistance Loans and remove the HFA from the financial process.



**Status:**

**Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to make any changes in the Home Town Heroes Loan process.

## ***9. The CD Loan And Funding Process For The Home Town Heroes Loans Does Not Properly Support The Program.***

The CD process for the Home Town Heroes Program requires the agency to fund the mortgage amount at closing and receive reimbursement from CD on average of 58 days from the closing date of the loan. The non-profit agency obtained a line of credit for funding the closed, but unreimbursed, loans. Management stated that the internal process has the agency making the loan and CD then purchasing the loan from the agency. This statement is not supported by the mortgage documentation. At closing, the mortgage is in the name of the County and not the agency. Second, the agency stated they are not selling the mortgage to the County, but closing the mortgage on behalf of the County and receive reimbursement at a later date. In addition, CD, to process the mortgage after the loan file is received from the agency, takes an average of 35 days (included in the 58 days spent) which adds to the time the mortgage is funded by the agency. Since the agency is submitting the completed documentation process and CD is just confirming compliance to the funding source requirement, the processing time is considered unreasonable.

Code	Amount Funded	Agency Payment	Date File Received By CD	Number Of Days File Received After Closing	Date Of CD Reimbursement	Days Funded By Agency
6698	19,300	03/29/2007	04/26/2007	42	06/07/2007	70
6710	25,000	*	06/06/2007	*	06/14/2007	0
6719	25,000	04/03/2007	06/10/2007	30	07/10/2007	98
6721	25,000	05/10/2007	06/10/2007	29	07/09/2007	60
6722	25,000	05/24/2007	06/10/2007	32	07/12/2007	49
6732	25,000	06/29/2007	07/17/2007	14	07/31/2007	32
6738	25,000	06/15/2007	07/17/2007	13	07/30/2007	45
6778	25,000	07/30/2007	08/28/2007	22	09/19/2007	51
6893	25,000	10/30/2007	10/08/2007	112	01/28/2008	90
6921	12,500	02/14/2008	NOL		04/08/2008	54
6938	20,000	02/15/2008	NOL		03/27/2008	41
6990	20,000	05/20/2008	06/17/2008	31	07/18/2008	59
7009	17,950	06/30/2008	08/01/2008	21	08/22/2008	53
				34.6	Avg Days	58.5

NOL = Not on Loan Log

\* = Home Town Heroes Plus Loan

The Home Town Heroes Program process is not covered by formal written approved procedures, but is noted in limited desk procedures developed by the processing staff and other informal directions. Therefore, there is no documentation that states who developed, evaluated and approved the current process. We do not consider that a reasonable analysis was performed on the current process to properly support the program. Requiring an agency to fund loans to close mortgages rather than CD funding the mortgage at closing is a limiting factor that should not be present for agencies to be part of the Home Town Heroes Program.

Community Development should not be placing barriers for agencies to participate in the Home Town Heroes Program based on loose internal processing procedures that are not a requirement of the grant funding.

Community Development does not have a policy in place requiring formal written procedures be in place for operating functions of the department. Therefore, there is no documentation that justifies requiring the agency to fund the mortgage at closing rather than CD using the grant funding received and designated for the program.

Community Development has no documentation to justify requiring the agency to fund the mortgage for the program until their internal process reimburses the agency for the loan. The funding expense incurred by the agency is not proper since it should be CD's responsibility for funding the loan at closing.

**We Recommend** management develop formal written procedures to process Home Town Heroes loans in a reasonable time frame and provide funding at the closing for the mortgage.

**Status:**

**Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to make any changes in the Home Town Heroes Loan process.

***10. Community Development Made Cash Advances To  
Tampa Bay Community Development For Working  
Capital Totaling \$150,000.***



**Tampa Bay Community Development Corporation**

Community Development made two cash advances to Tampa Bay Community Development for \$75,000 each on January 17, 2000 and July 24, 2004 for "working capital" for the agency that processes loans for the CD programs funded by grant funds. A transaction was reported

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for the 2006-2007 SHIP filing noting a recovery of \$150,000. Neither the County nor the grant authorized advances to an agency for working capital.

<b>CASH ADVANCES</b>	
<b>January 17, 2000</b>	<b>\$75,000</b>
<b>July 24, 2004</b>	<b>\$75,000</b>
<b>Total</b>	<b>\$150,000</b>

The County is not authorized to make cash advances to agencies doing business with BCC Departments. In addition, grant funds for SHIP must be expended and the loan work complete before the funds can be reported to the State as used under the grant.

The cash advances occurred due to a lack of proper internal controls and oversight to prevent improper use of County and grant funds.

The effect was that the Agency was given an unauthorized loan by CD in the form of a cash advance.

**We Recommend** management's advances and/or loans not be granted to agencies to support funding loans that are being closed by the agency when CD has the ability to fund the loans at closing by changing their internal procedures.

**Status:**

**No Longer Applicable.** The policy to grant working capital advances with SHIP funds ended in September 2006.

***11. The Allocation Criteria Used By CD For Indirect Expenses Assessed By The County To The Department Does Not Use The Proper Criteria For Calculation Of The Administration Cost.***

To allocate the quarterly County indirect costs, CD is using the total dollar amount charged to the five segments instead of using staff time usage percentages. The allocation of staff time as criteria is a better representation for allocating the Risk and Intergovernmental Expenses for the County.

The quarterly indirect costs of \$118,000 are allocated to the following five cost centers/funding source for the CD operations:

- 1) Community Development Block Grant
- 2) Home
- 3) State Housing Initiative Partnership
- 4) Emergency Shelter Grant

5) Housing Trust Fund

The total quarterly amount allocated includes the fixed yearly amount of \$20,000 per quarter paid by the HFA. We do not agree with CD's use of total quarterly expenses management used as a factor instead of the staff time use for the five segments being assessed.

Analyzing the use of the two criteria for 2007-2008 four quarters using the "expense" criteria, the factor understated the amount allocated to the Community Development Block Grant by \$164,000. However, for 2007-2008, this amount was off-set by \$70,000 allocated to the Community Development Block Grant because the allowable administration costs were used up for the grant funding period (\$30,000 SHIP and \$40,000 HOME), and therefore, could not be assessed.

The criteria used to allocate expenses should best reflect the use of the service being expensed. The Board of County Commission departments and the Clerk's office use staffing as the criteria method to allocate the County indirect expenses.

Community Development did not have documentation to support the reason for using "Quarterly Expenses Percentage" versus "Staff Time Usage" for the allocation criteria.

Based on our analysis, CD is not assessing the indirect expenses to the CD cost center properly.

**We Recommend management:**

- A. Document the justification for using the quarter expense versus staff utilization as the criteria for the allocation of indirect expenses.
- B. Evaluate the justification and consider changing the criteria to "Staff Time Usage."

**Status:**

A&B. **Not Implemented.** Management considered the IG's recommendation and determined it is not the most appropriate method for CD.

## ***12. Internal Controls Are Inadequate For Processing Loan Files Received From The Agencies.***

Community Development's internal control process for receiving loan files from the agencies is not adequate. When loan files are received from the agencies, the information is recorded on the Loan Log before the processing on the loan is started in the department. At a point in the CD loan processing, the loan is assigned a "Code" number and entered into the COMDEV Application database. However, all loan files received by CD may not be recorded in the database (i.e., unapproved loans). The Loan Log is never updated to document the disposition of the loan file (i.e., entered into the loan database, loan rejected and loan request withdrawn).

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Based on the process, management has not established an internal control to ensure all loan files received by CD are processed by CD in a reasonable time frame.

The use of the Loan Log was discussed with management and management stated, "The log is only used as a reference with regard to files received and is not designed as part of our internal control structure. Our internal control structure begins when an actual number has been assigned and set up in the database." The information contained on the log is not secured since the file is maintained on the shared drive that can be accessed by all department users.

In order to have a proper internal control structure, control of the incoming loan files must be established at the first point CD takes control of the file, not later in the internal flow process. Second, if the Loan Log is not being used as an internal control function, the cost justification of the function is questionable. We accept the fact that an agency not receiving an answer to a loan request in a reasonable time frame would follow up with CD on the disposition, but relying on an outside agency to ensure proper processing is not an adequate internal control for the department.

A proper internal control is established at the first place CD takes control of the file and assurance is established that all files are processed.

Management does not realize the need for the Loan Log process to be part of their internal control structure. Community Development must have a procedure to ensure all loan files received are processed in a timely manner.

The effect of this weak internal control is there are no assurances that all loan files received by CD are processed.

**We Recommend management:**

- A. Change their internal control process for loan files received to establish control when the files are received by the department, and account for proper processing.
- B. Access to the control document (Loan Log) should be limited to only authorized persons to input and update the information.

**Status:**

A&B **Not Implemented.** Management considered the IG's recommendation and determined it is not necessary to make the log part of the internal control structure since the risk of a lost file is very low.

### ***13. Management Has Implemented A New Internal Control To Review Completed Loan Files Without Proper Structure.***

Management has no formal written, approved procedures for the new internal control process for completed loan files. The following issues are present:

- The programs' files covered under the procedure are not defined in writing by management.
- Management has implemented a new procedure to review completed loan files for the same requirements that the file checklist provides during the normal process performed previously.
- Management's current verbal procedure has the review taking place about one month after the final sign-off has been completed. However, management also stated this review was performed about one year after completion of the mortgage in the past.
- Management has implemented the control without having adequate information to support the necessity for the new review. In addition, there is no process to evaluate the results of the control to cost justify the new control.

There are several areas that have not been addressed by management for the new internal control:

- There are no formal written procedures for the internal control process.
- There is no process or documentation summarizing the type of findings found in the reviews; findings are stated by each loan contained in each loan file.
- There is no procedure or documentation evaluating the results of the review to ensure the new procedures are cost justified.
- There is no procedure or documentation evaluating the exception and the corrective action to prevent the issues from reoccurring.

Management stated that the new internal control process is not a "SHIP Requirement." Management's only requirement is that the secondary person who performs the new review is not the person who originally did the file review. In a subsequent meeting with management, it was stated that the process was not an internal control, but something requested by the CD Director. Since there is nothing in writing on the process, we cannot determine if there is a standard procedure in place or a procedure on request. However, the issue still stands; the procedure is being performed without proper documentation.

When adding a new internal control to an existing production process, the new procedure should be documented and the results monitored to ensure the control is cost justified. For this process, management did not exercise adequate due diligence in developing the new internal control.

Management does not have a procedure in place to ensure cost justification of the new internal control or take corrective action on any problems found by the reviews.

**We Recommend** management determine if this process is an internal control. If the process is an internal control, correct the deficiencies present in the Opportunity for Improvement.

**Status:**

**Not Implemented.** Management has determined that random sampling is not an internal control. It is used as both a quality improvement and training tool; sampling is above and beyond normal internal controls.

## ***14. The Resident Assurance Process For CD Loan Programs Is Not Properly Documented.***

The process that CD established to confirm that the borrower is in compliance with the resident requirement (living at the residence) is not documented in writing, the review cycle timing is not justified, and the results of the internal control are not tabulated for analysis. Community Development management put the process in place about three years ago using the COMDEV Application Loan Database using the tickler function. Our discussion with management and the staff performing the internal control finds the procedure (verbal) for the most part adequate with the exception of the following issues:

- A. The resident requirement procedures are verbal and not supported by written approved procedures. There is also no documentation stating what the internal control is covering. The grant requirement is silent on how to confirm residents after the loan is processed.
- B. Management stated the four year review cycle was approved by the County attorney, but the request and approval is not supported by documentation; verbal discussion and approval only.
- C. There is no procedure to tabulate the results of the internal control to evaluate the risk present in the current portfolio of borrowers not in compliance with the grant residency requirement. The tabulated results should be used to validate the adequacy of a four year review cycle.

Written procedures provide guidance necessary to properly and consistently carry out departmental activities at a required level of quality. The establishment of the procedures provides the opportunity for management to ensure adequate process/internal controls have been established. It is management's responsibility to establish written internal procedures covering key department processes. The procedures should be in sufficient detail to provide standard performance criteria and reduce the risk of misunderstanding and/or unauthorized deviations that could cause processing errors. The development of the procedures could prevent the establishment of unnecessary controls or steps that negatively affect process

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productivity. The procedures also support the cross-training and back-up for key staff functions.

Community Development management did not document the procedure in writing, but used a verbal procedure. If the primary staff member is not available to perform the resident requirement process, a second staff member may not be able to perform the complete responsibilities to keep the process current and accurate.

**We Recommend management:**

- A. Develop written procedures which will provide the necessary information to keep the process current and accurate.
- B. Cross-training should be provided to ensure that a second appropriate staff member could carry out the responsibilities of the function.
- C. The results of the review should be tabulated and the results evaluated for risk as related to the timing of the review of four years.

**Status:**

- A. **Not Implemented.** Management stated that the procedures are fully documented. IG considers this item not implemented. A request to management was made on July 6, 2012 for a copy of the formal written procedures. Management did not comply with this request (management response of July 18, 2012).
- B. **Not Implemented.** Management did not address the IG recommendation in their response. Management did not commit to cross-training for the function.
- C. **Not Implemented.** Management did not address the IG recommendation in their response. Management did not commit to performing an analysis on the results of the process.

**15. The Loan Database "Total Cost" Field Is Not Adequately Documented In The Loan Files For The Home Town Heroes Program.**

The loan files' documentation for the Home Town Heroes Program does not clearly document what items were included in calculating the "Total Cost" field in the COMDEV Application Loan Database. We reconciled the information on the HUD-1 (Mortgage Closing Statement) and the Management Lien Balance Screen information to the "Total Cost" field on the Management Lien Balance screen. Seven Loans out of eleven had differences. In addition, there is no Users Manual and or written procedures that give information on what amounts should be included in this field. There is no clear understanding what this field is used for; management stated that



the field could be used for reporting total funding for the loan made by CD. Based on our analysis, the field included funds from sources other than CD (i.e., first mortgage, seller payments, real estate taxes, and borrower funding).

A spreadsheet was given to management with these differences and staff/management was able to supply reconciliation information for the differences. In some cases, real estate taxes were not included, and in some cases, other cash payments made by the borrower were included. Management also stated that they standardized the way "Other Funds" are presented in May 2008.

Written procedures provide guidance necessary to properly and consistently carry out departmental activities at a required level of quality. The establishment of the procedures provides the opportunity for management to ensure adequate process/internal controls have been established. It is management's responsibility to establish written internal procedures covering key department processes. The procedures should be in sufficient detail to provide standard performance criteria and reduce the risk of misunderstanding and/or unauthorized deviations that could cause processing errors. The development of the procedures could prevent the establishment of unnecessary controls or steps that negatively affect process productivity. The procedures also support consistencies in staff performing the functions.

The inconsistencies in the items included in the "Total Cost" field and the lack of adequate documentation in the loan files are caused by the lack of formal written procedures for the staff to follow for the process.

We were unable to evaluate the exposure of inaccurate information in the "Total Cost" field since management could not supply the information related to the use of the field in their reporting process. However, we did note in the reporting to the State, one of the schedules does include Table "B," a field called "Private Funding Expended."

**We Recommend** management develop written procedures which will provide the necessary information to keep the process current and accurate. The procedure should provide adequate documentation be present in the loan files to ensure the "Total Cost" field was properly calculated and input into the database.

**Status:**

**Not Implemented.** The "total cost" field is the sum of grant funds plus private funds plus processing fees. It is a calculation field. No specific procedure or further documentation is needed since it is a calculation.

## 16. CD Reported Two Loans To SHIP That Were Paid Out Past The Three Year Time Frame For Use Of Grant Funds.

Community Development reported two Home Town Heroes' loans for the SHIP 2004-2005 time frame that were paid out by CD after the June 30, 2007 grant authorized time. The issue was found in testing 13 Home Town Heroes' loans processed from April 1, 2007 to August 1, 2008 in the SHIP filings rendered in September 2008 covering the funding years of 2005-2008. Listed is the information relevant for the 13 loans reviewed and the two loans in question.

Code	Amount Funded	Agency Payment	Date File Received By CD	Date Of CD Reimbursement	Date Completed	SHIP Reported	Confirmed SHIP Report Date Filing
6698	19,300	03/29/07	04/26/07	06/07/07	06/14/07	07/01/04	Reported in 2004-05 Filing
6710	25,000	HTH+ Loan	06/06/07	06/14/07	07/27/07	07/01/04	Reported in 2004-05 Filing
6719	25,000	04/03/07	06/10/07	07/10/07	08/17/07	07/01/04	Reported in 2004-05 Filing
6721	25,000	05/10/07	06/10/07	07/09/07	09/07/07	07/01/05	Reported in 2005-06 Filing
6722	25,000	05/24/07	06/10/07	07/12/07	07/20/07	07/01/04	Reported in 2004-05 Filing
6732	25,000	06/29/07	07/17/07	07/31/07	08/17/07	No Date	Reported in 2006-07 Filing
6738	25,000	06/15/07	07/17/07	07/30/07	08/10/07	07/01/05	Reported in 2005-06 Filing
6778	25,000	07/30/07	08/28/07	09/19/07	08/25/07	07/01/05	Reported in 2005-06 Filing
6893	25,000	10/30/07	10/08/07	01/28/08	04/18/08	No Date	Reported in 2006-07 Filing
6921	12,500	02/14/08	No Date	04/08/08	04/18/08	No Date	Reported in 2006-07 Filing
6938	20,000	02/15/08	No Date	03/27/08	04/18/08	07/01/05	Reported in 2005-06 Filing
6990	20,000	05/20/08	06/17/08	07/18/08	09/30/08	No Date	HOME Funding
7009	17,950	06/30/08	08/01/08	08/22/08	09/29/08	No Date	HOME Funding

The reporting and budget planning process should ensure that funding is used in the proper time frame and proper budget planning is in place. If the "completed date" for the two loans are correct, CD may have to adjust the filing for 2004-2005.

**We Recommend** management evaluate the correctness of the two loans reported in 2004-2005 and make the adjustment as required by SHIP.

**Status:**

**Implemented.** Management maintains these two loans were correctly reported as closed in the closed out Annual Report for Fiscal Year 2004-2005 and no adjustments are needed to the Fiscal Year 2004-2005 SHIP Report.

## **II - Affordable Rental Housing Development Program**

### ***17. There Is A Lack Of Oversight Of CD Management Granting Financial Concessions For Affordable Housing Rental Loans.***

The CD financial concession process for affordable housing rental loans suffers from:

- 1) A lack of oversight.
- 2) No written procedures.
- 3) No reporting process.
- 4) Lack of documentation supporting the granting of the concessions.
- 5) No formal approvals.
- 6) No reporting and approval process to the BCC.

Based on our analysis of the affordable rental housing loans, there were extensive substantial financial concessions made to the recipient agency over a prolonged period of time. These include:

- 1) Loan forgiveness.
- 2) Commitment for future loan forgiveness.
- 3) Extension of loan payment and interest deferred time.
- 4) Reduction of the interest rate.
- 5) Mortgage amount increases.

There is poor and/or no documentation that supports the analysis, justification, and approvals found in CD's project or loan files for the loans. Because of the lack of supporting documentation for the multiple financial concessions, we could not determine:

- 1) Whether there was a legitimate need for the amount of financial concessions being granted,
- 2) Whether there are weaknesses in CD's affordable housing rental loan process that failed to anticipate future problems, or
- 3) If the CHAF Agency is receiving preferential treatment (See Opportunity for Improvement No. 20).

In addition, management could not supply financial concession data (CD does not formally track and report the information) to evaluate the impact on the use of grant funding.

The weaknesses in CD's financial concession processing are also covered in three other Opportunities for Improvement:

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Opportunity for Improvement No. 18 - Community Development Is Forgiving Affordable Rental Housing Development Mortgages Without Any Written Policies And Procedures.

Opportunity for Improvement No. 19 – The Community Development Department Does Not Have Any Written Policies And Procedures Related To Their Practice Of Modifying Affordable Rental Housing Development Project Mortgages.

Opportunity for Improvement No. 20 – Community Development Grants Generous Financial Concessions To Contemporary Housing Alternatives Of Florida, Inc. (CHAF) That Affects County Funding Availability.

Financial concessions for program loans should be documented, tracked, and reported to justify the use of grant funding and to ensure the resources of the residents of Pinellas County are being utilized in the most efficient manner. Adequate review, justification, approval, and reporting of future commitments, mortgage term modifications, and forgiveness of loans representing favorable treatment for the agencies used by CD to deliver the programs should be present in the CD operations' policies and procedures.

Even though the grants used to fund the program do not prohibit the financial concessions being granted by CD, CD should not have blanket authority to make financial concessions for the affordable housing rental loans with a lack of adequate policies and procedures, internal controls, reporting and approval process in place, and proper BCC oversight. Community Development management's statement that Resolution 87-86 dated March 10, 1987 approved by the BCC gives CD management the authority to make the financial concessions is incorrect. Resolution 87-86 covers the subordination function for housing rehabilitation loans.

Of major concern is the inadequate oversight by the BCC for the financial concessions on affordable rental housing development loans that impact the availability and use of grant funding by Pinellas County. The lack of adequate policies and procedures, reporting and approval process have bypassed BCC oversight for actions taken by CD on past and current projects.

<b>66 AFFORDABLE RENTAL HOUSING PROJECTS</b>	<b>NUMBER OF PROJECTS</b>	<b>STARTING PROJECT AMOUNT</b>	<b>CURRENT PROJECT AMOUNT</b>	<b>PERCENT INCREASE</b>
Project Mortgage Amount	66	\$17,238,169	\$35,310,692	104.8%
Project With Modifications	22	\$4,425,750	\$20,789,020	369.7%
Project With Deferrals	45	\$13,543,573	\$31,616,096	133.4%
Forgiveness Amount for Projects	28		\$8,241,425	
<b>Examples of Projects:</b>	<b>Interest Rate</b>			
Project Mortgage Amount				
Project A	0% Deferred 5 Yrs, 3% After	\$853,794	\$12,598,426	1375.6%
Project B	0% Deferred 5 Yrs, 2% After	\$50,500	\$1,513,425	2896.9%

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<b>66 AFFORDABLE RENTAL HOUSING PROJECTS</b>	<b>NUMBER OF PROJECTS</b>	<b>STARTING PROJECT AMOUNT</b>	<b>CURRENT PROJECT AMOUNT</b>	<b>PERCENT INCREASE</b>
Project C	0% Deferred 5 Yrs, 3% After	\$769,272	\$3,054,272	297.0%
<b>Projects With Modifications</b>	<b>Interest Rate</b>			
Project D	0% Deferred 2 Yrs, 3% After	\$165,983	\$415,533	150.3%
Project E	0% Deferred 1.5 Yrs, 3% After	\$59,262	\$111,949	88.9%
Project F	0% Deferred 3 Yrs, 3% After	\$1,269,000	\$1,548,253	22.0%
<b>Projects With Deferrals</b>	<b>Interest Rate</b>			
Project G	0% Deferred 1 Yrs, 3% After	\$88,200	\$164,389	86.4%
Project H	0% Deferred 1.5 Yrs, 3% After	\$47,230	\$445,000	842.2%
Project I	0% Deferred 1.5 Yrs, 3% After	\$54,908	\$479,000	772.4%
<b>Forgiveness for Projects</b>				
Project A	Forgiven Amount	\$1,672,500	% of Ending Loan	13.3%
Project B	Forgiven Amount	\$65,000	% of Ending Loan	4.3%
Project C	Forgiven Amount	\$1,409,272	% of Ending Loan	46.1%
Project D	Forgiven Amount	\$249,550	% of Ending Loan	60.1%

**We Recommend management:**

- A. Be required by BCC to produce policies and procedures that cover the financial concession process and require that CD present to the Board for approval the financial concessions' policies and procedures. The procedures must require adequate documentation justifying the financial concessions being granted.
- B. The review and approval process be put into place based on the dollar amount of the loan requiring approvals by the BCC, County Administrator, and the Director of CD for financial concessions.

**Status:**

- A. **Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to develop written policies and procedures.

- B. **Not Implemented.** Management stated that it is not appropriate for the BCC to approve financial concessions.

### ***18. Community Development Is Forgiving Affordable Rental Housing Development Mortgages Without Any Written Policies And Procedures.***

Community Development has forgiven about \$8.2 million in mortgages of the \$17,238,169 of initial mortgages, that we are aware of, related to affordable rental housing development projects without having any written policies and procedures for this process. More than \$5.3 million of this forgiveness was related to 66 projects we reviewed (projects that require CD oversight). About 42.4% of these project mortgages contained forgiveness clauses, and the \$5.3 million of forgiveness represented 31% of the original mortgage amounts. The CD files provided to us for review did contain mortgage clauses providing for forgiveness related to the \$5.3 million, and did not contain any evidence of CD or County management approvals of the forgiveness. In most cases, there were no records describing how the amount of the forgiveness was determined, or of the justification for forgiving part or the entire mortgage. Most clauses stated the forgiveness would take effect after making monthly mortgage payments for 15 years even if amortization was for 30 or 40 year periods. Also, in response to our request for the total amount of mortgage forgiveness for the last five years, CD stated:

"We do not have a list of the data you asked for. We do not track this data."

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#### **\$17,238,169 Total Rental Development Loans**

Total Rental  
Development  
Loans Not  
Forgiven,  
\$8,996,744 ,  
52%



Rental  
Development  
Loans  
Forgiven,  
\$8,241,425 ,  
48%

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The absence of formal written procedures for the CD operation has been a continuous theme throughout this audit. Any CD policies and procedures we did receive or discover during this review were usually not written, not approved by management and lacked adequate internal control considerations. Instead, they were what we consider guidelines or desk procedures. Our review of any related written "policies and procedures" that did exist at the time of the fieldwork resulted in our opinions that the procedures were described at a very high level and did not note who was responsible for performing what and/or approving the processes. As a result, any related internal controls were weak or non-existent.

A summary of mortgage loan forgiveness granted to affordable rental housing developers is shown in the table below:

<b>RENTAL HOUSING DEVELOPMENT MORTGAGE FORGIVENESS DATA</b>			
	<b>CHAF (A)</b>	<b>ALL OTHER</b>	<b>TOTALS</b>
No. of Rental Housing Development Project Files Reviewed By Audit Services	48	18	66
No. of Projects With Loan Forgiveness	25	3	28
Percentage of Projects With Loan Forgiveness	52.1%	16.7%	42.4%
Dollar Value of Loan Forgiveness of Project Files Reviewed	\$4,698,335	\$647,942	\$5,346,277
Dollar Value of Forgiveness as Percentage of Initial Mortgages	46.5%	9.1%	31.0%
Dollar Value of Forgiveness Reported By CD Management - Projects Not Reviewed By Audit Services	\$0.00	\$2,895,148	\$2,895,148
Total Dollar Value of Rental Housing Development Loan Forgiveness Known To Audit Services as of February 25, 2009	\$4,698,335	\$3,543,090	\$8,241,425

(A) CHAF - Contemporary Housing Alternatives of Florida, Inc.

Community Development management provided us with the amount of \$2,895,148 of forgiveness granted to three affordable rental housing development projects that had not been part of our sample. Therefore, we are aware of a minimum of over \$8.2 million of mortgage forgiveness granted by CD.

An example of mortgage forgiveness granted to an affordable rental housing developer is shown in the table below:



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<b>DATE</b>	<b>ACTIVITIES – CD FINANCING OF CHAF NORTHSIDE VILLAS</b>
03/29/02	Issued \$769,272 mortgage; 3% interest, 30 years, payments deferred until 4/1/07; \$97,500 to be forgiven in 15 years.
10/24/03	Modified 3/29/02 mortgage "advancing" \$2,285,000 (future, unquantified advance mentioned in 3/29/02 mortgage) for a revised total of \$3,054,272. Terms 3% interest, 30 years, monthly payments, deferred until 11/8/08. Total forgiveness now amounts to \$1,409,272 of the \$3,054,272.
11/01/05	Modified mortgage, extending deferral of payments until 12/1/10.

Written policies and procedures are always considered an important tool utilized to ensure adequate internal controls. Policies and procedures not only describe what the objectives are, they usually describe in detail how the function should be performed. Policies and procedures also describe the various levels of management approval required for the various steps of the process. The lack of documented policies and procedures can result in functions not being consistently performed in compliance with best practices or stated objectives.

Community Development management stated that having written policies and procedures related to mortgage forgiveness would not allow them the flexibility they need to accomplish what they feel is necessary to complete the various project transactions.

The effect of not having written policies and procedures for the process of granting forgiveness of affordable rental housing developers' mortgages poses risks to the County, especially when you consider that more than 42% of the mortgages reviewed had forgiveness clauses. Without documented mortgage forgiveness policies and procedures, there are no internal controls for this practice of allowing mortgage forgiveness that always benefits the developers at the expense of the County. Community Development management is not using grant and/or County funding in the most effective manner to promote affordable housing to Pinellas County residents.

**We Recommend management:**

- A. Develop and implement written policies and procedures for the practice of forgiving any mortgage amounts related to affordable rental housing development projects. The procedures must require adequate documentation justifying the amount forgiven.
- B. Develop a review and approval process to be put into place, based on the dollar amount of the loan, requiring approvals by the BCC, County Administrator, and the Director of CD for financial concessions.

**Status:**

- A. **Partially Implemented.** Management has ensured that each affordable rental housing lien file contains a "story board" form. No commitment was made to develop written policies and procedures.
- B. **Implemented.** Management has completed procedures for the Affordable Housing Loan Process.

## ***19. The Community Development Department Does Not Have Any Written Policies And Procedures Related To Their Practice Of Modifying Affordable Rental Housing Development Project Mortgages.***

Community Development has modified millions of dollars of its affordable rental housing development mortgages, but does not have any written policies and procedures related to this practice. The mortgages that are modified are those that had been established between affordable rental housing developers and the Pinellas County Board of County Commissioners as mortgagee for affordable rental housing development projects that had been approved. Community Development does not have any written policies and procedures for the process of modifying previously approved and recorded mortgages.

Community Development has modified both the terms and/or the amounts of previously approved mortgages. Modifications have been made to:

- 1) Mortgage amounts.
- 2) Periods of time that monthly or balloon payments are deferred.
- 3) The interest rates of the amortization.

Forty-eight, or 72.7%, of the 66 affordable rental housing projects we reviewed (project listing from Opportunity for Improvement No. 18) contained modifications to the initial mortgage. Twenty-six, or 39.4%, of the projects we reviewed had recorded more than one mortgage modification, and many modifications had been made within a few months of the original mortgage. We found no evidence of either the justifications for these modifications, or of CD and/or County management approving the modifications.

A summary of loan modifications granted by the CD department to affordable rental housing developers is shown in the table below:

<b>RENTAL HOUSING DEVELOPMENT MORTGAGE MODIFICATION DATA</b>			
	<b>CHAF (A)</b>	<b>ALL OTHER</b>	<b>TOTALS</b>
No. of Rental Housing Development Project Files Reviewed	48	18	66
No. of Projects With Loan Modifications	43	5	48
Percentage of Projects With Loan Modifications	89.6%	27.8%	72.7%
No. of Projects With More Than One Loan Modification	25	1	26
Percentage of Projects With	52.1%	5.6%	39.4%

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<b>RENTAL HOUSING DEVELOPMENT MORTGAGE MODIFICATION DATA</b>			
	<b>CHAF (A)</b>	<b>ALL OTHER</b>	<b>TOTALS</b>
More Than One Loan Modification			
Percentage of Loan Modifications Related to Increasing Mortgage Amounts	37.5%	11.1%	34.8%
Percentage of Loan Modifications Related to Lowering Interest Rates or Extending Repayment Dates	62.5%	88.9%	65.2%

(A) CHAF - Contemporary Housing Alternatives of Florida, Inc.

An example of an affordable rental housing developer's mortgage being modified is shown in the table below:

<b>DATE</b>	<b>ACTIVITIES – CD FINANCING OF CHAF CARIBBEAN COURT</b>
11/04/94	<p>Issued \$54,908 mortgage; 0% interest; balloon payment due in 2 years. However, the following clause was noted:</p> <p align="center">"When payment of the principal amount due in one lump sum would constitute hardship in the opinion of Pinellas County, Pinellas County, at its option, may prepare an alternative Promissory Note requiring monthly payments of principal and interest, which interest rate charged shall not exceed twelve percent (12%) per annum."</p>
05/03/96	<p>Issued \$30,566 mortgage; 0% interest; balloon payment due in 2 years. However, the following clause was noted:</p> <p align="center">"When payment of the principal amount due in one lump sum would constitute hardship in the opinion of Pinellas County, Pinellas County, at its option, may prepare an alternative Promissory Note requiring monthly payments of principal and interest, which interest rate charged shall not exceed twelve percent (12%) per annum."</p>
06/28/96	Issued \$423,127 mortgage; 3% interest; monthly payments deferred 18 months until 2/1/98; balloon payment of approximately \$285,500 due at end of 15 years (7/1/11).
12/23/99	Modified mortgage, consolidating all loan balances for \$479,000 total at 3% interest; extending deferred payments an additional 3.5 years to 7/31/01; the \$285,500 balloon payment extended out until 2016.

Written policies and procedures are always considered an important tool utilized to ensure adequate internal controls. Policies and procedures not only describe what the objectives are, they usually describe in detail how the function should be performed. Policies and procedures also describe the various levels of management approval for the various steps of the process. The lack of documented policies and procedures can result in functions not being consistently performed in compliance with best practices or County objectives. This should be an important consideration in the case of reviewing and approving developers' requests for additional funds

or for more favorable mortgage terms for previously approved affordable rental housing development projects.

Community Development management has not developed nor implemented written policies and procedures for reviewing and approving developers' requests for additional funds or for more favorable terms for previously approved affordable rental housing development projects. Management stated that policies and procedures are not necessary since the staff and management know their roles and function responsibilities.

The effect of not having written policies and procedures for the process of reviewing and approving rental housing developers' requests for mortgage modifications poses risks to the County; especially when 73% of the affordable rental housing projects reviewed apparently needed mortgage modifications. Without documented policies and procedures for this process, there are no internal controls for this practice of making mortgage modifications that always benefit the developers, at the expense of the County.

**We Recommend management:**

- A. Develop and implement written policies and procedures for the process of reviewing and approving rental housing developers' requests for mortgage modifications. The procedure must require adequate documentation justifying the mortgage modifications being granted.
- B. Develop and implement a review and approval process to be put into place based on the dollar amount of the loan requiring approvals by the BCC, County Administrator, and the Director of CD for financial concessions.

**Status:**

- A. **Partially Implemented.** Management has ensured that each affordable rental housing lien file contains a "story board." The documentation on the form contains information dating back from the start of the loan. No commitment was made to develop written policies and procedures.
- B. **Implemented.** Management has completed procedures for the Affordable Housing Loan process.

**20. Community Development Grants Generous Financial Concessions To Contemporary Housing Alternatives Of Florida, Inc. (CHAF) That Affects County Funding Availability.**

**CHAF DEVELOPMENTS**



The CD Department regularly grants substantial financial concessions (extensions of deferred time, reductions in interest rates, mortgage increases, and future loan forgiveness) to CHAF that represents 87% of the financial concessions made for the entire program. The financial concessions could be considered preferential treatment to the agency. CHAF (owner/developer) has been CD's primary Community Housing Development Organization for at least the last 14 years, and is a Florida not-for-profit owner/developer corporation. We examined 48 project files for affordable rental housing developed by CHAF that represent about \$10.1 million of initial mortgages loaned to CHAF by CD, or 58.7% of the total CD funding for affordable rental housing development. All 48 CHAF project funding contained financial concessions compared to the other agencies that had concessions of 38.9% of the projects. Financial concessions provided to CHAF are generated by:

- 1) Abnormally favorable terms found in the original mortgages.

- 2) Excessive instances of mortgage modifications after the original agreements had been approved.

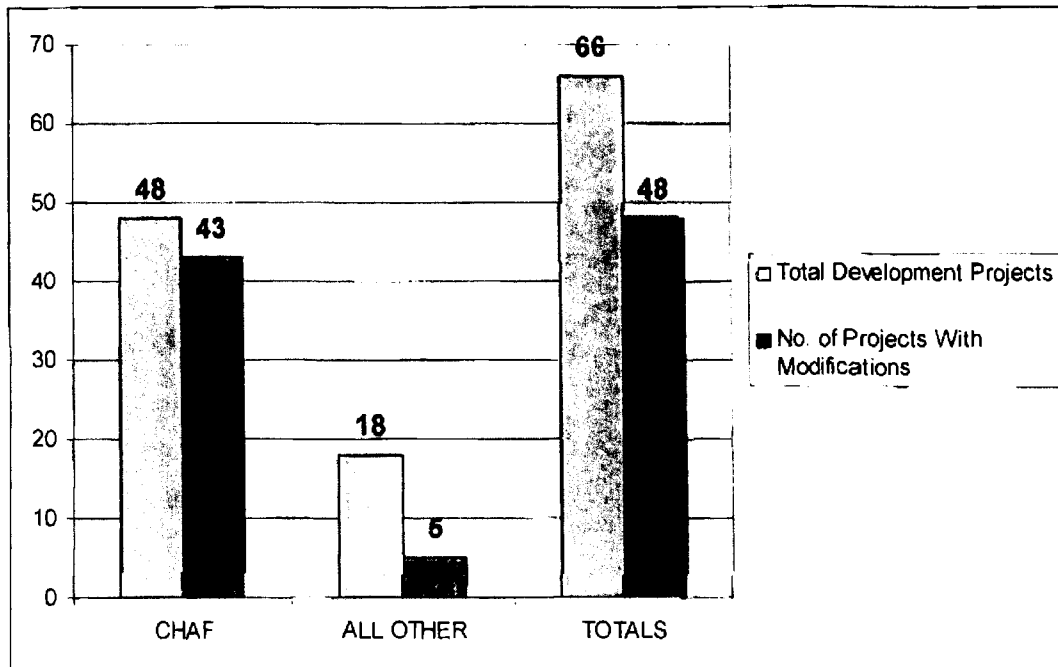
The concessions are not restricted by the grant funding sources.

<b>CHAF LOAN MODIFICATIONS COMPARED TO OTHER AGENCIES</b>			
	<b>CHAF (A)</b>	<b>ALL OTHER</b>	<b>TOTALS</b>
Number of Projects	48	18	66
Number of Projects With Modifications	43	5	48
Percentage of Projects With Loan Modifications	89.6%	27.8%	72.7%
Projects With More Than One Loan Modification	25	1	26
Percentage of Projects With More Than One Loan Modification	52.1%	5.6%	39.4%
Percentage of Loan Modifications With Increasing Mortgage Amounts	37.5%	11.1%	34.8%
Percentage of Loan Modifications Related to Lowering Interest Rates or Extending Repayment Dates	62.5%	88.9%	65.2%

(A) CHAF - Contemporary Housing Alternatives of Florida, Inc.

As stated in Opportunity for Improvement No. 18, we did not find any evidence that either County management or the BCC approved these mortgage terms allowing forgiveness/modifications, or as we have noted in another Opportunity for Improvement, CD does not have any written policies and procedures for their process of granting amounts of mortgage forgiveness. Community Development could not provide any reports utilized to inform and quantify these practices to CD management or BCC.

### CHAF LOAN MODIFICATIONS



#### Favorable Original Mortgage Terms; Commitment for Future Forgiveness:

- A. Almost \$4.7 million, or 46.5%, of the County's initial mortgage amounts with CHAF for affordable rental housing development is being forgiven and not collected by the County. The original mortgages in 25, or 52.1%, of the 48 CHAF project files reviewed contained these forgiveness clauses for part or the entire mortgage amount. The forgiveness was typically stated to take effect after 15 years when CHAF met the criteria of either making regular repayments in a timely manner, or only using the property as agreed. In our review of 18 non-CHAF projects, we noted only three instances of forgiveness granted for other non-profit organizations and these cases represented \$647,942, or only 9.1%, of those mortgage amounts.
- B. Our review also noted the following clause in some original mortgages with CHAF for affordable rental housing development that had called for a lump sum repayment of a loan:

"When payment of the principal amount due in one lump sum would constitute hardship in the opinion of Pinellas County, Pinellas County, at its option, may prepare an alternative Promissory Note requiring monthly payments of principal and interest, which interest rate charged shall not exceed 12% per annum."

This original mortgage clause, in our opinion, does not provide any incentive to CHAF to make the lump sum payment in the required time period, and could readily result in further deferral of repayments to the County.

- C. Community Development's practices of issuing mortgages to CHAF to develop affordable rental housing with forgiveness clauses and clauses stating that the mortgage's lump sum repayment could constitute a hardship have both been ongoing for several years. During our review, we noticed loan forgiveness in documents dating back to 1997, and lump sum hardship clauses from 1994.

Favorable Modifications to Original Mortgage Terms:

- D. Forty-three, or almost 90%, of the 48 CHAF affordable rental housing development projects we reviewed had evidence of modifications to the original mortgages that resulted in more favorable terms to CHAF. Mortgages were revised to:
1. Add or extend the periods of time where payments were deferred.
  2. Interest rates were lowered.
  3. Additional amounts were added to the amount of these mortgages.

Also, 25, or 52%, of the 48 CHAF affordable rental housing development projects we reviewed had more than one mortgage modification as the result of the 80 total modifications for the 48 projects. About 63% of the CHAF mortgage modifications were related to lowering interest rates and/or extending repayment dates. In 2003, a CHAF "blanket mortgage modification" was processed. This represented an agreement between CD and CHAF "to further defer monthly payments and change various forgiveness dates" related to \$7,204,632 of 81 mortgages for 37 CHAF projects for affordable rental housing development. These modifications were not captured in our audit statistics above because this information has not been copied into the 37 projects' "lien" (legal) files as of this time.



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<b>CHAF PROJECTS WITH LOANS FORGIVEN</b>		
<b>DATE</b>	<b>LOAN AMOUNT</b>	<b>FORGIVEN AMOUNT</b>
June 2001	\$700,000	\$150,000
December 2006	\$8,725,000	\$1,672,500
January 2003	\$1,201,000	\$135,555
June 2002	\$249,550	\$249,550
August 2005	\$256,000	\$48,900
March 2002	\$769,272	\$97,500
June 2005	\$2,285,000	\$1,311,772
May 2000	\$1,462,925	\$65,000
June 1999	\$68,628	\$66,393
September 1998	\$158,654	\$28,000
September 1997	\$131,170	\$30,000
September 1997	\$128,480	\$28,000
September 1997	\$128,480	\$28,000
September 1997	\$128,480	\$28,000
September 1997	\$88,124	\$66,393
June 1999	\$156,548	\$13,900
June 1999	\$177,800	\$15,255
June 1999	\$170,000	\$14,550
January 2000	\$170,796	\$15,268
April 2000	\$116,019	\$10,173
January 2002	\$135,046	\$13,766
October 2002	\$83,359	\$10,050
January 2004	\$552,471	\$72,123
January 2003	\$166,378	\$24,375
October 2003	\$503,312	\$503,312
<b>Total</b>	<b>\$18,712,492</b>	<b>\$4,698,335</b>

- E. Three of the mortgage modifications we noted had been granted to CHAF related to providing CHAF a total of \$752,862 of additional monies, all to be forgiven, for problems relating to their projects.
- The \$249,550 of these additional funds were utilized for a project where the original purchase and rehabilitation mortgages of \$165,983 for a duplex were dated May 6, 1998. The mortgage modification was made July 26, 2002, prior to the first payment of the original mortgage. The mortgage modification described "ground settling problems necessitated demolishing the duplex rehabilitation project and reconstructing the facility" as a triplex for \$249,550; this amount to be forgiven.
  - The other \$503,312 of additional funds, again to be forgiven, were granted in two mortgage modifications related to one project. The original project note was dated November 13, 1998 for \$356,133. The first modification (July 26, 2002) was for an additional \$252,445 to "replace a property demolished because of severe structural problems."

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- The second modification noted was dated October 25, 2002 and was for an additional \$250,867 "to be used for construction of an affordable triplex rental property replacing a property demolished because of severe structural problems."

No documentation of any of these three structures' problems or other independent appraisals of the problems or justifications was found in the project files relating to the three mortgage modifications.

ORIGINAL MORTGAGE AMOUNT	ORIGINAL MORTGAGE DATE	ADDITIONAL AMOUNT ADDED/REQUESTED	DATE OF ADDITIONAL FUNDS	PURPOSE OF ADDITIONAL FUNDS	AMOUNT OF ADDITIONAL FUNDS FORGIVEN
\$165,983	05/06/1998	\$249,600	07/26/2002	Ground Settling	\$249,550
\$356,133	11/13/1998	\$252,445	07/26/2002	Property Demolished because of structural problems	\$252,445
\$356,133	11/13/1998	\$250,867	10/25/2002	Replace Demolished Property	\$250,867

- F. Community Development has been granting generous financial concessions to CHAF for an extended period of time. The oldest of the 48 CHAF projects we reviewed was originated on November 4, 1994. We examined the contents of the respective lien file of CHAF's Caribbean Court project. The history of this early project, more than 14 years ago, displayed financial concessions similar to those observed in most of the other 47 CHAF project files we examined.
- G. Another major 2008 CHAF mortgage modification package is currently being considered by CD management. We found a document in one CD file that appeared to be a 2008 proposal for mortgage modifications of about \$14,267,630 of four CHAF project mortgages. These projects had not been modified in the 2003 blanket mortgage modification package. The proposal stated that modifications would include:
1. Lowering interest rates from 3% to 1%.
  2. Extending periods of payment deferral until 2018 or 2026.
  3. Extending the periods of amortization to 40 years from 30 years.

We asked CD management what the status was of this proposal, and they replied, "They (CD) are trying to assist CHAF, but this is still a proposal at this time." Any expense related to this assistance, of course, will be the burden of the County.

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An example of the Community Development Department granting substantial financial concessions to a CHAF affordable rental housing development project is summarized in the table below:

DATE	ACTIVITIES – CD FINANCING OF CHAF LAKEVIEW VILLAS
08/31/04	Issued \$853,794 mortgage; 0% interest; balloon payment due for full amount in 900 days (2/17/07).
08/10/05	Modified 8/31/04 mortgage terms to 3% interest, 40 years; monthly payment, deferred until 2/1/12.
08/10/05	CD signed developer agreement: 37 of 45 total units will be SHIP assisted; project budget not to exceed \$7,625,000.
08/10/05	Additional \$3,000,000 mortgage; 3% interest, 40 years, \$1,000,000 lump payment to be made 2/1/12; \$800,000 to be forgiven; balance of \$1,200,000 monthly payments deferred until 2/1/12. Mentions possible \$3,225,000 Future Advance to CHAF.
06/29/06	Additional \$3,225,000 mortgage: basis – “future advance” mentioned in 8/10/05 mortgage, 3% interest, 40 years, monthly payments deferred until 2/1/12.
12/27/06	CD signed revised developer agreement for 84 assisted units out of a total 84; total budget not to exceed \$11,725,000.
12/27/06	Modified mortgage(s); additional \$2,500,000 resulting in a “consolidated repayment plan” of \$8,725,000; \$3,000,000 from 8/10/05, \$3,225,000 from 6/29/06, and the new \$2,500,000 of 12/27/06. The \$1,000,000 lump sum payment for 2/1/12 from the 8/10/05 mortgage is rolled into this new \$7,052,000, 3% mortgage with the 480 monthly payments deferred until 2/1/12. The 8/10/05 \$800,000 of forgiveness is still valid after 15 years, and \$872,500 of additional forgiveness is committed for 6/30/08 – for a total \$1,672,500 of forgiveness.
07/03/07	Additional \$3,019,632 mortgage; 0% interest, full lump sum payment due 6/30/08.
07/03/07	Modified 7/3/07 mortgage: extended lump sum payment another 6 months until 12/31/08.
12/09/08	A CD 2008 proposal was found by Audit Services in the CD Lakeview Villas project file that stated, “The following loan (12/27/06 - \$8,725,000) is currently being deferred, and will be restructured from 3% to 1% interest, and re-amortized at 40 years beginning after an extended period of deferral period to 2026.” Audit Services is not aware of the status of either this proposal, nor of the \$3,019,632 lump sum payment that was due 12/31/08.

Grant funding should be used by CD to best deliver programs to the residents of Pinellas County. County resources should be protected, maximized, and utilized efficiently. Funding should not be utilized to help another entity, in this case CHAF, even though this organization is under contract to help the County in their quest to develop affordable housing for its citizens. Adequate review, justification, approval and reporting of future commitments, mortgage terms, modification of terms, and forgiveness of loans should be documented. Actions representing favorable treatment for the agencies used by CD to deliver the programs should not be present in the CD operations.

Community Development's process for review and approval of affordable rental housing development projects and developers has resulted in the need for CD to grant continuous financial concessions after the commitment is made, in this case to CHAF. This includes the fact that there are no approved, written policies and procedures related to the practice of granting loan forgiveness and loan modifications. Either the selection and approval process is

proving to be inadequate and/or CHAF's performance as an affordable rental housing developer is inadequate. In either case, these conditions have gone on for many years, and the circumstances look even gloomier, based on the additional massive financial concessions currently being considered. Yet, we are not aware of any pending changes in CD's process for selection of developers. We feel many of these conditions would not be an issue if County management or the BCC had been aware of these issues and were required to approve these financial concessions and/or received regular reports regarding these practices. Although requested by Audit Services, CD management has not provided copies of any typical monthly, quarterly, and/or annual affordable housing development status reports given by CD staff to CD management, the Assistant County Administrator, and/or the BCC, which would include data on concessions to developers.

The effect of granting significant financial concessions to CHAF is the County has fewer resources available to develop affordable housing for its citizens. The County's resources, to develop affordable rental housing, are not being utilized in an efficient and effective manner. Keeping CHAF afloat in the manner CD has for so many years undermines any progress the County makes in its objective to develop affordable housing.

It should be emphasized that these affordable housing projects are not required to have all rents at established "affordable" rates. The current rate for the 48 CHAF Projects reviewed is 82.6% of the units that are at "affordable" rates, and the remaining 17.4% can be rented at whatever rates the market will bear. So, not setting aside 100% of the units to rent at lower rates, CHAF has been able to take advantage of low interest financing, deferred payments, and forgiveness of portions of mortgage loans.

We were unable to determine whether CHAF received any preferential treatment in using programs of CD. It should be disclosed that a former County Administrator and a former Assistant County Administrator served on the Board after leaving County employment. We did determine that CHAF received a large number of various concessions from CD during the course of their projects that deviates from the original terms.

**We Recommend:**

- A. County management, who is independent of CD management, be required by the BCC to conduct comprehensive analyses of:
  - 1) The soundness of CD's process of its review and approval of affordable rental housing development projects and developers.
  - 2) The financial and professional strength of CHAF to continue to be the primary provider of affordable rental housing development for the County.
- B. Serious consideration be made for encouraging and/or developing other Community Housing Development Organizations to develop affordable housing in Pinellas County. This will become an even more critical issue in the very near future as additional funding

becomes available to CD and the County to purchase and rehabilitate properties in foreclosure.

- C. A review and approval process be put in place based on the dollar amount of the loan requiring approvals by the BCC and the County Administrator for financial concessions.

**Status:**

- A & B. **Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to perform an evaluation of CHAF. However, management did state that CHAF is not the "primary provider of affordable housing" for the County.
- C. **Not Implemented.** Management stated that it is not appropriate for the BCC to approve financial concessions.

## ***21. The Limited Written Policies And Procedures Related To The Review Process Of Affordable Rental Housing Development Program Applications Are Inadequate.***

Community Development is making multi-million dollar decisions regarding the approval of developers' proposals to develop affordable rental housing development projects under the Affordable Rental Housing Development Program without having adequate written policies and procedures related to this decision-making process. Our review of affordable rental housing development included 66 projects (project listing from Opportunity for Improvement No. 18) which had \$17,238,169 of initial mortgages. The CD department reviews applications received from developers that propose affordable rental housing projects that result from either:

- Developers' new construction of multi-family rental housing.
- Developers' acquisition of existing affordable rental housing that does not require rehabilitation.
- Developers' acquisition and rehabilitation of existing affordable rental housing.
- Developers' rehabilitation of existing affordable rental housing.

Community Development management could have meetings with the contractor on the programs available and requirements prior to an application being submitted; these are also not covered by procedures. The meetings are not documented in the loan files creating undue risk for the County related to "back room deals" being established in the loan process. Funds are available to the County from both the Federal and State governments, as well as from other sources, to create affordable rental housing opportunities for low and moderate income tenants. The CD Department is responsible for the approvals and administration of the process of obtaining funding for this subject, as well as for other purposes, from these sources. Community Development is also responsible for the County's compliance with the numerous criteria and restrictions that come attached to these governmental grants to the County.

The lack of documented policies and procedures increases the County's potential long term risk of approving projects that might not succeed, or have other issues of non-compliance of funding source requirements, that could result in the requirement that the County must return funds to the funding source after they had already been disbursed by the County to the developers. By intent, the grant provisions/usage of funding is broad in nature to permit Counties to tailor their programs to meet the needs of their own County. In addition, there may be several options related to compliance to grant requirements open to the County. The process must be defined by CD internal procedures to be effective.

The CD internal project application review process includes review, analyses, and performance of up to 64 subjects in the areas of:

1. Applicant Information (13).
2. Site Information (12).
3. Project Information (22).
4. Other CD department processes (17), based on a CD Affordable Housing Development Case File checklist that is used.

As noted in Opportunity for Improvement No. 22, the CD internal project application review process includes review, analyses, and performance of up to 64 subjects contained in a checklist. However, the checklist is not a substitute for written policies and procedures. Several of the project files we reviewed contained mortgage documents with loan amounts exceeding \$1 million. The mortgages are with the developer/owners, and they are usually low, or zero interest loans that have a deferred period before repayments are scheduled to commence. The funding/grant requirements contain general procedures required to be followed, but the procedures are not detailed to support the CD function. Later in our audit work, CD did eventually provide us with their "Multi-Family Project Procedures." However, our review of these policies and procedures resulted in the opinion that:

- The functions were described at a relatively high level, with very few details.
- The titles of CD staff noted as responsible for various steps rarely matched titles shown in the CD organization chart (i.e., "Project Manager" and "Project Specialist" are not found on the organization chart).
- The only written approvals mentioned involved the "Planning Manager" and the Assistant Director, and these were to be put on the checklist.

Written policies and procedures are always considered an important tool utilized to ensure adequate internal controls. Policies and procedures not only describe what the objectives are, they usually describe in detail how the function should be performed and/or calculated. Policies and procedures also describe the various levels of management approval for the various steps of project review and approval. The lack of documented policies and procedures can result in functions not being consistently performed in compliance with best practices or mandated criteria. This should be an important consideration in the case of reviewing and approving developers' applications for proposed affordable rental housing development projects.

The lack of written policies and procedures for reviewing and approving developers' applications for proposed affordable rental housing development projects could result in CD making decisions that are less than optimal. Projects and/or developers might be selected that pose potential risk of not succeeding, or have other issues of non-compliance that could also result in the requirement that the County must return funds to the funding source after they had already been disbursed for the project by the County. Besides the potential financial risks, bad decisions could adversely impact the affordable rental housing opportunities for low and moderate income tenants, which is the main objective of this program.

**We Recommend management:**

- A. Develop and implement written policies and procedures related to their various processes for reviewing and approving developers' applications for proposed affordable rental housing development projects.
- B. There should be no meeting(s) held with the prospective applicant that is not documented by CD management and placed in the loan files.

**Status:**

- A. **Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to develop formal written policies and procedures for the application process.
- B. **Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to document meetings held with applicants.

## ***22. Community Development Checklists Used For Affordable Rental Housing Development Program Project Review/Approval Process Do Not Provide Adequate Internal Controls.***

Checklists used by CD staff for the rental housing development project review/approval process do not provide adequate internal controls for these important processes. The CD project application review process includes reviews, analyses, and performance of up to 64 subjects in the areas of:

- 1. Applicant Information (13).
- 2. Site Information (12).
- 3. Project Information (22).
- 4. Other CD Department Processes (17), based on a CD Affordable Housing Development Case File checklist that is used.



These 64 items are all listed on a one page case file checklist with very limited descriptions of the function or document referenced, preceded by a small, square box for inserting a check sign. There are not any spaces allocated for CD staff members' initials that performed the function, or for the dates the functions were completed. Spaces are dedicated, however, for the signatures of "Verified By" and "Approved By" at the bottom of the form. Our review of affordable rental housing development included 66 projects (project listing from Opportunity for Improvement No. 18) which had \$17,238,169 of initial mortgages.

Checklists are of limited value and cannot be used as substitutes for documented policies and procedures or internal controls. Our review of CD rental housing case file checklists noted the following issues that further undermined their inherent limited value:

- Items that are checked off do not indicate who performed and/or verified the function.
- Items that are checked off do not indicate the date that the function was completed.
- Check off boxes marked with an NA do not indicate who approved this notation, or for what reason.
- Many boxes are left blank, with neither an NA nor a note explaining why it was not needed.
- Checklist sheet overall approvals were made by a "Principal Planner" and the CD Assistant Director versus the Urban Development Section Manager and the CD Director. Since there are not written procedures, approval levels have not been established.
- There was no case file checklist approvals noted by staff for the Fiscal and Compliance sections of CD, although those areas have roles in the review and approval process.

Strong internal controls are needed to consistently make the optimal decisions regarding the review and approval of projects and/or developers for affordable rental housing development. Although checklists might be useful to the CD staff, these do not provide adequate internal controls.

Community Development management is relying entirely on the affordable rental housing development checklists for internal controls of the review and approval processes for this program instead of using them as a visual check of the status of the process. Checklists should augment written policies and procedures, not replace them. Management stated that procedures/information for using the checklist are not necessary since the staff and management knew their roles and function responsibilities. As noted in Opportunity for Improvement No. 25, the lack of appropriate policies and procedures resulted in key files and/or documentation lost or missing. Conveniently, Community Development management's response to the situation was to blame the last CD administration. These case files had been completed during the time(s) that CD was managed by a different administration and personnel. Having the appropriate policies and procedures ensures that staff and management (past, present, or future) know their roles and function responsibilities. This is of greater importance during the current economic conditions since staff reductions will force a redistribution of function responsibilities to the remaining staff.



Community Development's reliance on checklists versus written policies and procedures for reviewing and approving developers' applications for proposed affordable rental housing development projects could result in CD making decisions that are less than optimal. Projects and/or developers might be selected that pose potential risk of not succeeding, or of having other issues of non-compliance that could also result in the requirement that the County must return funds to the funding source after they had already been disbursed for the project by the County. Besides the potential financial risks, bad decisions could adversely impact the affordable rental housing opportunities for low and moderate income tenants, which is the main objective of this program. The checklist also does not properly support consistency in performing the review and approval process as the items on the checklist lacks detailed information. There is little and/or no accountability for the current review and approval process currently in place for the program.

**We Recommend** management develop and implement written policies and procedures related to their various processes for reviewing and approving developers' applications for proposed affordable rental housing development projects with a checklist to include:

- A. Each step on the checklist should be covered in the procedures.
- B. The checklist should be updated to include date for performing the task and place for the initials of the staff member performing the task.
- C. There should be no unexplained uncompleted items of "NA" on the checklist.
- D. The checklist should be part of the internal control process along with the written procedures.

**Status:**

- A. **Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to develop written policies and procedures for the checklist items.
- B. **Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to revise the checklists to include dates and initials.
- C. **Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to make any changes to the "NA" process.
- D. **Not Implemented.** Management stated that it does not rely entirely on checklists for internal controls for the review and approval process for this program.

## ***23. There Are No Written Policies And Procedures Related To The Fund Disbursement Process Of Affordable Rental Housing Development Program Approved Projects.***

The County's CD department is disbursing millions of dollars annually to develop affordable rental housing without having written policies and procedures for internal controls related to these disbursements for the Affordable Rental Housing Development Program. Our review of Affordable Rental Housing Development included 66 projects (project listing from Opportunity for Improvement No. 18) which had \$17,238,169 of initial mortgages. Community Development disburses funds to developers and/or escrow agents for the development of projects CD previously provided affordable rental housing that results from either:

- Developers' new construction of multi-family rental housing.
- Developers' acquisition of existing affordable rental housing that does not require rehabilitation.
- Developers' acquisition and rehabilitation of existing affordable rental housing.
- Developers' rehabilitation of existing affordable rental housing.

The affordable rental housing development program disbursement process incorporates functions related to the legal closing of the transaction(s), including obtaining and reviewing property documentation (i.e., title policies, hazard insurance, liability insurance, and copies of the property's recorded deed). Closing transaction documents include affordable rental housing development agreements with the developer, Clerk recorded mortgages and notes, BCC approved Land Use Restriction Agreements with the developer and the closing disbursement settlement statements.

Funds are available to the County from both the Federal and State governments, as well as from other sources, to create affordable rental housing opportunities for low and moderate income tenants. The CD Department is responsible for the approval of the projects for these programs, as well as for the disbursements of funds after their approvals of the project and developer. The lack of written policies and procedures increases the County's potential risk of inappropriate disbursements that could eventually result in the requirement that the County must return funds to the funding source after they had already been disbursed by CD to the developers.

Written procedures provide guidance that is necessary to properly and consistently carry out departmental activities at the required level of quality. The establishment of procedures provides the opportunity for management to ensure that adequate process/internal controls have been established. Also, written policies and procedures will state the level of management review and approval for the various functions to be performed. It is management's responsibility to establish written internal procedures covering key department processes. The procedures should be in sufficient detail to provide standard performance

criteria and reduce the risk of misunderstanding and/or unauthorized deviations that could cause processing errors. The development of the procedures could also prevent the establishment of unnecessary controls or steps adversely affecting process productivity. The procedures also support the cross-training and back-up for key staff functions.

Community Development management has not developed nor implemented written policies and procedures for disbursing funds related to the affordable rental housing development projects. Instead, CD management is relying on an Affordable Housing Development Program Lien File Checklist that lists 13 items that are only very briefly labeled or described. Management stated that policies and procedures are not necessary since the staff and management know their roles and function responsibilities. As noted in Opportunity for Improvement No. 25, the lack of appropriate policies and procedures resulted in key files and/or documentation lost or missing. Conveniently, Community Development management's response to that situation was to blame the last CD administration; these case files had been completed during the time(s) that CD was managed by a different administration and personnel. Having the appropriate policies and procedures ensures that staff and management (past, present, or future) know their roles and function responsibilities. This is of greater importance during the current economic conditions since staff reductions will force a redistribution of function responsibilities to the remaining staff.

The lack of written policies and procedures for disbursing funds for affordable rental housing development projects could result in CD making inappropriate disbursements that might eventually result in the requirement that the County must return funds to the funding source after they had already been disbursed by CD to the developers. This could result in the County having to invest more funds than had been initially approved for the project. Besides the potential financial risks, bad decisions could adversely impact the affordable rental housing opportunities for low and moderate income tenants, which is the main objective of this program.

**We Recommend** management develop and implement written policies and procedures related to their various fund disbursement processes for affordable rental housing development projects.

**Status:**

**Not Implemented.** Management stated there is no need for additional procedures.

## ***24. Checklists Used By CD For The Disbursement Of Funds Related To The Affordable Rental Housing Development Program Projects Do Not Provide Adequate Internal Controls.***

Checklists used by CD staff for the affordable rental housing development project fund disbursement processes do not provide adequate internal controls for the millions of dollars disbursed annually. The CD project fund disbursement process for rental housing development includes up to 13 subjects in the pre-closing and post-closing activities. These 13 items are all listed on a one page lien file checklist with very limited descriptions of the function or document referenced, preceded by a small, square box for inserting a check sign. There are not any spaces allocated for the CD staff members' initials that had performed the specific function, or for the dates the functions were completed. Spaces are dedicated, however, for the signatures of CD staff from the program, Urban Development, and finance divisions of CD who "verified file contents."

Checklists are of limited value and cannot be used as substitutes for written policies and procedures of internal controls. Our review of CD rental housing lien file checklists noted the following issues that further diminish their inherent limited value:

- Items that are checked off do not indicate who performed and/or verified the function.
- Items that are checked off do not indicate the date that the function was completed.
- Check-off boxes marked with NA do not indicate who approved this notation, or for what reason.
- Many boxes are left blank, with neither NA nor a note explaining why it was not needed.
- Checklist sheet overall approvals were not made by any CD staff in the program, Urban Development and finance divisions.

Strong internal controls are needed to consistently make the proper fund disbursements for projects and/or developers related to affordable rental housing development. Although checklists might be useful to the CD staff, they do not provide adequate internal controls for the disbursement processes.

Community Development management is relying entirely on the affordable rental housing development checklists for internal controls of the disbursement processes for this program instead of using them as a visual check of the status of the process. Checklists should augment written policies and procedures, not replace them. Management stated policies and procedures are not necessary since the staff and management know their roles and function responsibilities. As noted in Opportunity for Improvement No. 25, the lack of appropriate policies and procedures resulted in key files and/or documentation lost or missing. Conveniently, Community Development management's response to that situation was to blame the last CD administration; these case files had been completed during the time(s) that CD was managed by a different administration and personnel. Having the appropriate policies and

procedures ensures that staff and management (past, present, or future) know their roles and function responsibilities.

Community Development's reliance on checklists versus written policies and procedures for fund disbursements for affordable rental housing development projects could result in CD making inappropriate disbursements that might eventually result in the requirement that the County must return funds to the funding source after they have already been disbursed by CD to the developers. Or this could result in the County having to invest more funds than had been initially approved for the project. Besides the potential financial risks, inappropriate disbursements could adversely impact the affordable rental housing opportunities for low and moderate income tenants, which is the main objective of this program.

**We Recommend** management develop and implement written policies and procedures related to their fund disbursement processes for affordable rental housing development projects.

**Status:**

**Not Implemented.** Management stated that it does not rely entirely on checklists for internal controls of the review and approval process for this program.

## ***25. Internal Controls Related To The Maintenance Of Affordable Rental Housing Development Program Project Case Files Are Inadequate.***

Internal controls related to the maintenance of rental housing development project case files are inadequate. We requested CD to furnish us with the case files for 11 affordable rental housing developments wherein:

- 1) The County was still liable for the developer/owner remaining in compliance with the various criteria of the funding source.
- 2) The developer/owner still had a balance on the project mortgage.

Community Development could not find three of the 11 files (sample from project listing in Opportunity for Improvement No. 18) we requested. These three files represented approximately \$2,254,000 of commitments for affordable rental housing projects. When we reviewed the eight case files that CD provided, we determined three did not contain the developer's financial statements required as part of their applications. Also, two of the case files did not contain other key information, such as the developer's application, the property appraisal, etc. Community Development management's response to these situations was, these case files had been completed during the time(s) that CD was managed by a different administration and personnel. The issues are a result of management not having formal written procedures covering storage and maintenance of mortgage files. At a minimum, management procedures should ensure complete mortgage files are maintained on all loans in repayment along with current project files.

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PROJECT	AMOUNT \$	COMPLETED	FUNDING	ISSUE
Alta Largo	\$1,000,000	06/12/2007	HOME	File OK
Boley Safe Haven	325,000		HOME	Missing Documentation
Friends of the Deaf & Hearing	90,000	09/30/2004	HOME	Missing Documentation
Heritage Presbyterian	618,400	03/30/2005	HOME	File OK
Home For Independence	51,997	09/15/1997	HOME	<b>Missing File</b>
Landing at Boot Ranch	1,600,000	05/19/1996	HOME	<b>Missing File</b>
Clearwater Partners-Lexington	276,625	09/30/2002	HOME	Missing Documentation
Leo Lane	814,704	01/28/2009	HOME	File OK
Palmetto Park	900,000	10/16/2006	HOME	Missing Documentation
Pinellas Village	602,000	03/09/1994	HOME	<b>Missing File</b>
Shady Pines	16,000	12/22/1996	HOME	File OK
TOTAL	\$6,294,726			
Files Missing	\$2,253,997			
Documentation Missing	\$1,591,625			

The CD Department identifies each one of their affordable housing development projects with a case number, and they collect and retain all the various documentation they used to review and approve developers' proposals in what they describe as case files. These case file documents include applicant information, site information, project information and verification regarding the compliance to the criteria of the sources of funding and other requirements. All of this information is critical to ensuring the proper decision is made whether or not to commit funds to the proposed project and/or developer.

It is management's responsibility to develop internal controls for long term maintenance of important departmental documents. These case file documents include such support as applicant information, site information, project information and verification regarding the compliance to the criteria of the sources of funding and other requirements. Management should have a procedure in place to ensure the proper storage and maintenance of these records.

Community Development management has not developed or implemented adequate internal controls to ensure proper maintenance and storage of affordable rental housing development records. Community Development management stated some of the missing case files had been closed several years ago, in their explanation as to why the files could not be found. We explained to CD management that although the property transactions may have closed and the funds had been disbursed to the developers, the County was still at risk as long as the rental facility had to remain within the funding criteria and their mortgage had not been satisfied. And, as long as that liability existed, the records that represented the justifications for the project



should be properly maintained. Management stated policies and procedures are not necessary since staff and management know their roles and function responsibilities.

The effect of CD not adequately maintaining their affordable rental housing development case files is that CD does not have records explaining the justification for committing funds to a project or developer of a project.

**We Recommend** management:

- A. Develop and implement formal written procedures to support adequate internal controls related to their affordable rental housing development project records.
- B. Ensure that all mortgages in repayment for this program have loan files with adequate supporting documentation, whether stored on site or in record storage.

**Status:**

- A. **Not Implemented.** Management did not address the IG recommendation in their response. No commitment was made to develop written policies and procedures.
- B. **Not Implemented.** Management did not address the IG recommendation in their response. Management did state that the "Lien Files" are maintained for the loans.

## ***26. Almost 14% Of The Affordable Rental Housing Development Project Files Reviewed Lacked Adequate Property Transaction Settlement Statements.***

Almost 14% of the 66 rental housing development project files (project listing from Opportunity for Improvement No. 18) reviewed lacked adequate property transaction settlement statements. Our review concluded that one project had an improper settlement statement and eight project files did not contain any settlement statements at all. These nine exceptions represented almost 14% of the project files. These nine projects' original mortgages amounted to \$5,379,073, or 31.2%, of the initial mortgage amounts of the 66 projects reviewed. Without proper settlement statements signed by both parties, there is no assurance as to the propriety of the property transactions. Settlement statements are forms that present the actual settlement costs, amounts paid to and by the settlement agent to the borrowers and to the sellers. In most cases, the U.S. Department of Housing and Urban Development Form (HUD-1) is used as the settlement statement.

Settlement statements, signed by both the buying and selling parties, serve as internal controls for the assurance of the propriety of real estate property transactions. These are standard documents and are part of normal procedures used in any real estate property transactions.

Lack of adequate property transaction closing process policies and procedures as well as ineffective use of existing process checklists resulted in the fact that rental housing development files contain inadequate settlement statements or no settlement statements at all.

Without proper settlement statements, signed by both parties, there is no assurance as to the propriety of the transactions. The fact that one project file had an improper settlement statement, because only the buyer's side of the transaction was shown, and eight project files did not contain any settlement statements at all, indicates CD staff could not have reviewed the property transactions to verify compliance with the objectives of the project agreements.

**We Recommend** management take steps to ensure adequate property transaction settlement statements are obtained and maintained for all affordable rental housing development projects that are deferred and/or are in repayment.

**Status:**

**Not Implemented.** Management stated they were unable to respond to this Opportunity for Improvement since the specific files were not identified in the audit report. It is the IG opinion that the settlement statement should be part of the loan file; absence is an internal control weakness for not finding and correcting problems.



### III - Home Town Heroes

#### **27. *Community Development's Monitoring Of The Home Town Heroes Program To The Budget Is Inadequate.***

Community Development does not measure and report results of the Home Town Heroes Program as compared to their original fiscal year budget. We requested from CD management the actual expenses paid and original budget for the Home Town Heroes program for Fiscal Years 2007/2008 and 2006/2007 (SHIP and HOME funded). Management provided the ending budget for the program and the actual amount of program expenses paid. They also provided a beginning budget for the higher level strategy that included the Home Town Heroes program, but not for the program itself. When we asked management to further research the original program budget amount for our review, management stated it did not have the original budget numbers. They stated they tried to recreate it, but could not. Community Development management stated they monitor the actual to the revised budget, but not to the original program budget.

Successful business management requires the ongoing monitoring of performance in order to generate data by which to judge the success or other criteria of specific program strategies. Improvement in performance can only be realistically achieved when management is properly informed about current performance as compared to initial objectives and goals.

Community Development management does not reconcile and/or report the program's ending budget with its initial budget. Community Development management stated that the program budget changes throughout the year and the important thing to them is measurements at the strategy level which includes the program data.

Community Development management has constructed a process that does not document their performance for the Home Town Heroes program comparing it to the original budgets. As a result, by not using analysis of the original budget versus actual, management does not have sufficient data to evaluate the effectiveness of the program. Maintaining the original budget as well as the revised budget for a program, comparing to actual expenses will assist in the program monitoring process. This comparison will help monitor improvement and examine trends which will help ensure program and strategic goals are met.

**We Recommend management:**

- A. Update their process of monitoring the program budget versus actual to also include the original budget and budget changes for the Home Town Heroes program.
- B. Develop written procedures for the process that requires adequate reporting and supporting documentation.

**Status:**

A & B. **No Longer Applicable.** The program is no longer being offered by CD.

**28. Community Development Policy Does Not Require A Written Marketing Plan For The Home Town Heroes Program.**

By policy, Community Development management does not develop a marketing plan at the Home Town Heroes Loan Program level. Management stated the following:

- Community Development does not have a written marketing plan for the Home Town Heroes program. However, currently a plan is in draft form, but not formalized.
- The agencies perform outreach and marketing on their own, but there is no requirement for that function in the agreement.
- Community Development does not leave the marketing entirely up to any agency. Community Development uses several types of marketing sources:
  1. Advertising on the County's TV channel
  2. Performing presentations at other County offices
  3. Use of the department webpage on the internet
  4. Radio spots
  5. Flyers
  6. Periodic mailings
  7. Press releases once per month

For the Home Town Heroes loan program, according to CD records and our testing, only 11 Home Town Heroes loans were made (case files were closed) for the time period July 1, 2007 through August 30, 2008. Community Development management stated the number of loans is not a good measure of the program. It is more a question of CD meeting the strategy. In addition, we determined through a review of the case files for the Home Town Heroes loan program, the application does not contain a line asking how they learned about the program. This may help to gather information related to evaluating effectiveness of the different types of marketing media used.

Community Development uses a three tier level of fund usage; Grant Funding, Strategy and Program. The program level is where the customer receives the service. To not set a marketing plan at the offering level (program), and move the plan up the funding steps, does not place the attention to the proper planning step where the benefit is received by the Pinellas County resident.

A formal marketing plan is necessary to provide direction, identify responsibilities, and identify necessary tasks to increase the chances the program will be successful and support the

optimum use of grant funds. It should include the media to be used as well as an analysis of the cost-effectiveness of such media.

Community Development management stated they currently have a marketing plan in draft form, but it is not formalized. However, CD management keeps stating they do not believe there is a need to establish formal marketing plans at the program level.

A marketing plan helps ensure all tactical marketing programs support the department and program's goals and objectives, as well as convey a consistent message to customers. Also, it improves efficiency between the department and an agency, which helps improve program effectiveness and minimizes expenses, all of which lead to optimum use of grant funds.

**We Recommend** management formally document in writing a Marketing Plan, which addresses the Home Town Heroes Loan Program to:

- A. Document who (an agency or the CD Department) has responsibility for paying marketing costs and performing marketing tasks of the Home Town Heroes Program.
- B. Include the types of media to be used and address the cost effectiveness of the media type(s) planned.
- C. Community Development management should either add a line to the application to ask how the applicant heard about the program or have the agency gather and document the information in the file on a separate document.

**Status:**

A, B & C. **No Longer Applicable.** The program is no longer being offered by CD.

## ***29. The Home Town Heroes Program Information Statement Does Not Provide Accurate, Timely, And Complete Information.***

The Home Town Heroes Information Statement (Information Statement) that is available to the public has not been updated to reflect the proper information for the CD program being offered. Community Development previously funded the Home Town Heroes program with SHIP funds. Beginning in approximately mid-July of 2008, management began to utilize the Housing and Urban Development HOME funding. SHIP funding was eventually phased out after all pending applications under the SHIP requirements were closed. The funding source will affect the criteria documented in the Information Statement. The issue is related to the following areas:

- A. Employment - The Information Statement requires that the applicant must be an essential person (defined positions) of Pinellas County who must be a full time employee. Full time status is not required by the SHIP or HOME grant funding

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source, but a CD internal policy. In our sample of 11 loans (only 11 Home Town Heroes loans were made from July 1, 2007 through August 30, 2008), we found two applicants that worked under 40 hours approved for the program. The borrower in Case File No. 6738 worked an average of 29 hours a week at a local hospital. For Case File No. 6921, the borrower worked 36 hours per week, also at a local hospital. When the issue of full time employment was discussed, CD management stated, "The issue of full time status is not critical to this program; nor is it a compliance issue related to the funding source." If full time employment is not a requirement of the CD program, the full time criteria should not be present in the Information Sheet.

- B. Income - The Information Sheet did not reflect the current maximum income limits under the HOME funding requirements, but stated the SHIP limit that is higher. For example, the maximum income limit for a 4 person household funded under SHIP is \$67,800. The maximum income limit for a 4 person household for HOME funding is \$45,200, a significant difference in income, which may mislead potential applicants.

<b>Maximum Annual Household Income Yearly</b> <b>FOR PROGRAM ELIGIBILITY</b> <i>(Effective 04/12/08 Incomes are updated annually)</i> <b>Number of People in Household</b>						
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
HOME	\$31,650	\$36,150	\$40,700	\$45,200	\$48,800	\$52,450
SHIP	\$47,520	\$54,240	\$61,080	\$67,800	\$73,200	\$78,600

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The following is the Home Town Heroes Information Statement posted on the Pinellas County Internet:

Maximum Annual Household Income						
FOR PROGRAM ELIGIBILITY						
<i>(Effective 04/12/08 Incomes are updated annually)</i>						
	1	2	3	4	5	6
Hourly	\$ 22.85	\$ 26.08	\$ 29.37	\$ 32.60	\$ 35.19	\$ 37.79
Monthly	\$ 3,960	\$ 4,520	\$ 5,090	\$ 5,650	\$ 6,100	\$ 6,550
Yearly	\$47,520	\$54,240	\$61,080	\$67,800	\$73,200	\$78,600

- C. Manufactured Homes(\*) - Under the current HOME funding, the Information Statement does not state that requirements allow manufactured homes as an eligible property under the HOME funding, which CD currently utilizes. Management acknowledged the program does allow manufactured housing under HOME funding. The program Information Statement provides incomplete information to all potential applicants.
- D. Mobile Homes(\*) - Under the prior SHIP funding, the Information Statement did not state that SHIP local housing distribution may not be used to purchase, rehabilitate or repair mobile homes. We noted the eligible properties listed on the program information statement were not complete for the time period that CD utilized SHIP funding. With the large number of Pinellas County citizens who live in mobile housing communities, an Information Statement which excludes mobile homes eligibility data provides incomplete information to all potential applicants who are considering buying a property.

(\*) Prior to 1976, all Mobile Homes are considered Mobile Homes. After 1976, all Mobile Homes are considered Manufactured Homes as long as the structure displays the certification from the manufacturer that states it qualifies as a Manufactured Home.

The Information Statement that is issued by CD for the Home Town Heroes Program to the public should contain current information that would help prospective applicants understand the benefits available under the Program. The need for correct information is also supported by management's stated use of the Information Statement. These "program descriptions" serve as guides for internal use and give interested lay persons an overview of the eligibility criteria of the various programs. The processing staff is authorized to make all approvals that are compliant with the program descriptions and the associated funding source criteria. They can

be overridden by management who has the responsibility to ensure that the overrides remain within the respective eligibility requirements of the particular funding source. Ultimately, the true "Program Description" is contained in funding source criteria; however, the correct information should also be present in the Information Statement.

Management stated that the program Information Statement is not updated due to the fact that the processing agency, Tampa Bay Community Development Corporation, is responsible for providing marketing for the program. Management considers the program information statement as an internal source of information and too difficult for the average homebuyer to understand. In subsequent issue discussions, management now stated that the Agencies are not responsible for program marketing (See Opportunity for Improvement No. 28 for information on the Marketing Plan).

The Information Statement, available to the public through posting on the County's internet site and distributed to the processing agency, may mislead potential homebuyers and influence their decision not to participate in the program.

The following is the Home Town Heroes Information Statement posted on the Pinellas County Internet:



**PINELLAS COUNTY**

**COMMUNITY DEVELOPMENT DEPARTMENT**

**HomeTown Heroes  
Information Statement**

This program is made available through the Pinellas County Board of County Commissioners and is implemented through a contract with various community based processing agencies. The purpose of the HOMETOWN HEROES program is to help expand homeownership opportunities for essential employees. It is available to all income eligible ~~employees~~ of selected military service, public service, and health organizations who purchase homes in any of the eligible areas listed below. The program provides financial assistance in the form of interest free, second mortgage loans with repayment deferred for five years.

**ELIGIBLE PROPERTIES**

Single-family detached houses, townhouses, villas, cooperatives, and condominiums are eligible types of housing. Rental and income-producing properties are not eligible. The home must serve as the applicant's primary residence; vacation homes and second homes are not eligible.

Properties may be located in unincorporated Pinellas County or within the boundaries of one of the cities listed below.

Belleair	Indian Shores	Oldsmar	St. Pete Beach
Belleair Bluffs	Indian Rocks Beach	Pinellas Park	Seminole
Belleair Beach	Kenneth City	Redington Beach	South Pasadena
Dunedin	Madeira Beach	Redington Shores	Tarpon Springs
Gulfport	North Redington Beach	Safety Harbor	Treasure Island

Properties located inside the city limits of Clearwater, Largo, St. Petersburg, and Belleair....

Inaccurate and incomplete information will limit the ability to raise awareness of the benefits of the program within the community.

**We Recommend management:**

- A. Keep the information on the Information Statement for the Home Town Heroes Program current, no matter if the document is available to the public or just used for internal information for the CD staff.

- B. Update the program information statement as changes are made to the program to provide accurate and complete communication of program requirements.


**Status:**

A & B. **No Longer Applicable.** The program is no longer being offered by CD.

### **30. *Management Is Not Complying With Their Home Town Heroes Program's Internal Policy.***

Community Development is not complying with their Home Town Heroes Program internal policy and/or guidelines that the applicant must be a "Full Time Employee" to qualify for the Home Town Heroes Program. As noted in Opportunity for Improvement No. 29, the borrowers in two loans in our sample were employed on a part-time basis (less than 40 hours). Based on the program information statement, which we consider an internal policy, the borrowers' hours worked did not comply with the eligibility requirements of the program. Neither loan file contained documentation that approved the deviation from CD's internal policy or justified the reason why. Further, we noted there was some uncertainty by management as to what the internal policy was in regard to the full-time employment requirement. As noted in Opportunity for Improvement No. 29, management stated that the borrower's hours were not relevant to the requirements of the program; however, previously management stated that "full-time in our programs is defined by us, not each individual employer. We use the 40 hours a week as 'rule of thumb'."

The following is the Home Town Heroes Information Statement posted on the Pinellas County Internet:



**Pinellas  
County**  
COMMUNITY  
DEVELOPMENT

PINELLAS COUNTY

COMMUNITY DEVELOPMENT DEPARTMENT

**HomeTown Heroes**  
Information Statement

This program is made available through the Pinellas County Board of County Commissioners and is implemented through a contract with various community based processing agencies. The purpose of the HOMETOWN HEROES program is to help expand homeownership opportunities for essential employees. It is available to all income eligible ~~all-time employees~~ of selected military service, public service, and health organizations who purchase homes in any of the eligible areas listed below. The program provides financial assistance in the form of interest free, second mortgage loans with repayment deferred for five years.



An internal policy should provide guidance and consistency to comply with management and/or legal requirements. All unique and/or complex transactions should be documented to aid with reviews and reconciliations, and to aid the understanding of others within the department about the transaction. Management stated the program Information Statement is an internal source of information that provides an overview and the eligibility requirements of the program. As noted in Opportunity for Improvement No. 29, the program Information Statement defines eligible applicants as essential personnel of Pinellas County who must be employed full-time.

Management had not defined the use and purpose of the Information Statement, but the document acts as an internal policy. The policy does not provide for loans to part-time essential employees.

Management's deviation from their internal policy and lack of documentation in the loan file of approval of the deviation created a possible inconsistency problem in the application of the program. The program criteria may not be applied to all applicants in the same manner.

**We Recommend management:**

- A. Update their internal policies (in this case the Information Statement) to comply with their current criteria.
- B. If deviations in employment, or any other criteria, will be permitted, a formal written policy must be developed.
- C. Documentation and approval for any deviation must be present in the loan file.

**Status:**

- A. **Implemented.** The information statement was updated to specify that "full time" means as classified by the employer.
- B. **No Longer Applicable.** The program is no longer being offered by CD.
- C. **No Longer Applicable.** The program is no longer being offered by CD.

**31. *A Breakdown Is Present In Management's Final Check To Ensure The Correct Information Was Entered Into The Loan Active Database For Home Town Heroes Program.***

There is a breakdown in the internal control that ensures the loan activity information of the loan is input correctly into the COMDEV database for the Home Town Heroes Program. We tested 11 loan files to determine if all applicable documents had the required signatures for the loan processing and proper approvals by management. During our testing of the sample, we noted that Case No. 6721 did not have a sign-off on the "Case File Checklist" by management indicating that the database review was completed. Management's sign-off is the final internal control that ensures the loan/deferred information has been input correctly into the database. One field, the due date of the deferred loan input into the database, is critical since it provides the initial start of repayment set-up of the loan. A tickler system in the database provides management with a three month reminder prior to the loan repayment due date.

In a subsequent meeting, management changed the information provided to us about this internal control. Management now stated that the procedure was a Quality Assurance function, not an internal control, and that not all loans are reviewed under this procedure. In addition, the two initials on the Input Form represent the staff member inputting the information to the Loan Database and the second staff member reviewing the input for accuracy. Community Development has no written procedures defining the approval process and what the staff is attesting to. Since our sample testing of the loan files was completed prior to the new information being received from management, we cannot attest that the two initials were present on our sample items. Without written procedures, we cannot evaluate the adequacy of the internal control for input of information into the Loan Database.

Internal controls are established by management to effectively handle potential risks. The database review performed by management is an internal control to ensure the information input in the database application is correct. This review is documented on the checklist in the case loan file by the sign-off of management.

Management did not sign off on the checklist sheet in the case file for our sample item indicating the database review was completed.

The sample of 11 files was not designed to determine compliance to management's internal control, but testing did find one non-compliant loan file. Because of the small sample size (designed to test other documentation criteria), we cannot conclude if the internal control is not functioning or the non-compliance was an isolated error. In addition, with the conflicting information received on the management sign-off and no written procedures, we cannot conclude on the intent of management for the process.

**We Recommend** management ensure that a database review is performed for all completed files. The sign-off should be made an internal control and the process documented in a written procedure. The loan file should not be filed unless the signature is present.

**Status:**

**No Longer Applicable.** The program is no longer being offered by CD.

**32. *Management Changed The Standard Mortgage Forms For The Home Town Heroes Program Without Proper Documentation For The Approval Of Changes.***

Management could not provide written approval from the County Attorney to support their changes made to the standard blank mortgage document for the Home Town Heroes Program. In addition, there is no documentation showing what sections were changed, the reason for the changes and the effective date of the change. Our review of 11 mortgage lien files indicated that there were different versions of the mortgage document being used to secure the down payment assistance loan for the Home Town Heroes program offered by Community Development.

On October 27, 2008 and again on November 14, 2008, we requested from management the effective dates of each mortgage version and the written documentation from the County Attorney approving such. On December 3, 2008, management replied in an e-mail to our requests:

"As previously mentioned, mortgage changes are discussed with management, approved, old copy saved off into a file, and new copy placed in the active directory. Any changes that would change the intent of the document, which is to secure a legal and binding mortgage for the BCC, would go through the County Attorney's office. Community Development would not revise any part of the agreement which would negate the purpose of the mortgage. Our changes mostly relate to specific changes related to funding source, or terms depending upon the program and strategy.

To recap, there are three versions of mortgages that have been used with the Home Town Heroes program. The first is the 'DAL Mortgage Only' which contained language for either funding source (SHIP and HOME). This has been used for several years, since approximately 1991. We were unable to locate the original review and approval documentation from the County Attorney's Office from the early 1990's. Management made the decision to use two separate mortgages based on the funding source being used around July of 2007 (the DAL Close merge Mortgage SHIP, and/or the DAL Close merge Mortgage HOME)."

Management has not supplied us with the effective dates or any documentation indicating that the County Attorney approved the mortgage document changes. In addition, there was no documentation stating what items in the mortgage were changed and the reason. Other issues related to management's response are:

- Discussing the mortgage documentation changes **without** formally documenting the changes and obtaining written approval from CD management and the County Attorney reflects inadequate internal controls.
- There are no written procedures for the mortgage change process.
- Community Development management alone should not be deciding what any changes impact: securing a legal and binding mortgage, and what changes would negate the purpose of the mortgage; the items are County Attorney issues.
- Placing the new copy of the mortgage in the CD active directory does not implement the change; there was no process to get the new form to the agencies putting together the loan packages.

Overall, the verbal mortgage form change procedure does not provide adequate internal controls to support the process.

A mortgage is a legally binding document that pledges property to a lender as security for the repayment of a debt. A legally binding contract must include consideration passing between the parties, an intention on the part of all parties to be bound to the contract, and clarity that the terms of the contract may be interpreted, understood, and enforced by a court. Any changes made to the mortgage document should be adequately documented by CD, and reviewed by legal counsel and approved in writing.

Written procedures provide guidance necessary to properly and consistently carry out departmental activities at a required level of quality. The establishment of the procedures provides the opportunity for management to ensure adequate process/internal controls have been established. It is management's responsibility to establish written internal procedures covering key department processes. The procedures should be in sufficient detail to provide standard performance criteria and reduce the risk of misunderstanding and/or unauthorized deviations that could cause processing errors. The development of the procedures could prevent the establishment of unnecessary controls or steps that negatively affect process productivity. The procedures also support the cross-training and back-up for key staff functions.

The CD mortgage document change process is not covered by approved, written procedures and the current verbal process provides inadequate internal controls.

The effects are that there is risk that the County may not be able to recover defaulted loans due to inaccurate or omitted language on the mortgage document.

**We Recommend** management develop formal written procedures for the process of modifying legal document forms. The procedures should include the mortgage form issues noted in this Opportunity for Improvement.

**Status:**

**No Longer Applicable.** The program is no longer being offered by CD.

### ***33. No Procedure Exists To Ensure Construction Cost Refunds Are Properly Documented In Database Records.***

There are no formal written procedures for the handling of construction refunds received before and/or after the mortgage closing. We noted one instance where a construction refund of \$540 was documented in the loan file (#6738), but not reflected in the COMDEV Application database. In addition, the database shows a "Temporary Deferred" loan for \$25,000 and the mortgage and note in the loan file is also for \$25,000. However, the HUD-1 statement shows the CD loan for \$24,460. The CD check issued to Tampa Bay Community Development was for \$25,800 (loan for \$25,000 and a fee for \$800.). We found no notation on the Management Lien Balance and the Activity screens (Application Database) for the loan reduction of \$540. The item was reviewed and management stated that there is no requirement to note the refund in the database; however, the refund was noted in a database report. Management has not supplied the name of this report or a copy showing the reduction of the loan of \$540. In addition, we could not find the credit of \$540 for the refund posted to the County General Ledger.

Because of the lack of internal controls surrounding refunds, other refunds could have been made without our detection.

Written procedures provide guidance that is necessary to properly and consistently carry out departmental activities at a required level of quality. The establishment of the procedures provides the opportunity for management to ensure adequate process/internal controls have been established. It is management's responsibility to establish written internal procedures covering key department processes. The procedures should be in sufficient detail to provide standard performance criteria and reduce the risk of misunderstanding and/or unauthorized deviations that could cause processing errors. The development of the procedures could prevent the establishment of unnecessary controls or steps that negatively affect process productivity. The procedures also support the cross-training and back-up for key staff functions.

Community Development does not have formal written procedures to cover the process when the loan is closed with the amount of the construction refund reflected in the closing balance rather than a reduction/payment received after closing. In addition, there is no requirement to document any construction refund in the database.

As related to this transaction, the loan database shows the mortgage is for \$25,000, but the loan was for \$24,450 and there is no record of the County receiving the refund amount. As for construction refunds received before and after the closing, there is no process in place to record the refund in the database.

**We Recommend** management:

- A. Develop written procedures which will provide the necessary information to keep the process current and accurate. The procedure should require the refund information be recorded in the Loan Application Database.
- B. Determine if the County has not received the refund of \$540.

**Status:**

- A. **No Longer Applicable.** The program is no longer being offered by CD.
- B. **Not Implemented.** Management did not address the \$540 refund in the response to the BCC.

## IV - Home Town Heroes Plus

### ***34. There Are No Marketing Plans, Objectives, And Goals Which Have Been Implemented For The Home Town Heroes Plus Program.***

Management stated that neither CD nor HFA have developed policies and procedures to promote the Home Town Heroes Plus program. Currently, the HFA is CD's only pipeline for potential borrowers to participate in the Home Town Heroes Plus program.

The HFA approved bond lenders (Banks) offer the down payment assistance to applicants if they qualify. If the applicant qualifies for the mortgage without down payment assistance, there may be no incentive and/or need for the lender to promote the Home Town Heroes Plus program. Basically, whatever is referred to CD/HFA by the lenders is what they get.

The Tampa Bay Community Development Corporation is a non-profit agency service provider for a similar program offered by CD referenced as the Home Town Heroes Program. The program's benefits are very similar to those of the Home Town Heroes Plus Program, except the Home Town Heroes program is currently funded with HOME Federal funds. The Home Town Heroes Program provides down payment assistance to "low income" applicants versus Home Town Heroes Plus, which offers down payment assistance to "moderate income" applicants allowed under SHIP funding.

A lack of a marketing plan is evident by the fact that the Tampa Bay Community Development agency does not refer potential borrowers to the Home Town Heroes Plus program when the applicant's household income exceeds the amount allowed under HOME funding. Management at the Tampa Bay Community Development agency stated that they have turned down potential borrowers due to income limits. Some Home Town Heroes' applicants do not qualify because their income is above the maximum allowed under HOME funds. With SHIP funding, Tampa Bay Community Development has more opportunity to provide loans because the maximum income limits are higher. Recently, CD allocated \$100,000 of SHIP Funds to the Tampa Bay Community Development program and within about six weeks the funds were spent. This result shows there is a demand for the Home Town Heroes type programs.

Tampa Bay Community Development agency management stated they have worked with the HFA in the past; however, they do not refer denied Home Town Heroes applicants to the Home Town Heroes Plus program.

For the Home Town Heroes Plus program, the first mortgage (HFA approved bond lenders) must be approved by selected lenders. These lenders provide the applicants with information regarding the down payment assistance programs. The Tampa Bay Community Development



agency stated, "We feel that the lenders are not as knowledgeable as our agency. We could provide servicing for the Home Town Heroes Plus program if we had the opportunity."

Community Development management has not provided any procedures for HFA's role to monitor customer satisfaction. HFA employees are CD employees that allocate a portion of their work time to HFA activities for the Home Town Heroes Plus program. SHIP Funds are expended by CD to purchase loans for the Home Town Heroes Plus program from the HFA, and therefore, SHIP activities should be monitored by CD to promote the most effective use of the SHIP funds. Community Development management stated that CD employees are not required to be involved in the process, but they are as agents for the HFA.

Community Development management has proclaimed non-involvement with administering the Home Town Heroes Plus program; however, for Fiscal Year 2008-2009, Community Development budgeted SHIP funds of \$480,000, specifically for the Home Town Heroes Plus program. Home Town Heroes, which CD has direct control of funds under the compliance of the SHIP requirements, is part of the operations. Per an email dated September 23, 2008, CD management stated:

That the Review Committee for the SHIP (grant) program is the Florida Housing Finance Corporation (not affiliated with the Housing Finance Authority).

Pursuant to Florida Statute 420.9075, a three-year fiscal Local Housing Assistance Plan was submitted to the Florida Housing Finance Corporation. Prior to submission, the Board of County Commissioners approved the Fiscal Years 2006-2007, 2007-2008 and 2008-2009 Local Housing Assistance Plan and adopted Resolution 06-68, which stipulates the plan is in compliance with SHIP requirements.

The SHIP Plan's Program Description (D) states that Governance for the SHIP program is as follows:

"The Pinellas County SHIP program is established in accordance with, and will conform to all requirements of, Section 420.907-9079, Florida Statutes, and Chapter 67-37.007 Florida Administrative Code and furthers the housing element of the Pinellas County Comprehensive Plan. The program will be administered by the Pinellas County Community Development Department."

The SHIP Plan's Program Description (H) defines Advertising and Outreach for the SHIP program as follows:

"Pinellas County annually advertises a Notice of Funding Availability in a newspaper of general circulation and in one or more publications serving ethnic and diverse neighborhoods at least 30 days before the beginning of its application period. Means of outreach include provision of information on housing programs to committees, at meetings and forums, via television and radio programs and internet postings and a variety of printed materials such as information statements and brochures."



Community Development has responsibility to develop a SHIP Plan mandated by Florida Statute 420.9075 and to administer the SHIP Funds accordingly, and therefore, should establish objectives, goals and a marketing plan for the Home Town Heroes Plus program.

A formal marketing plan is necessary to provide direction, identify responsibilities, and identify necessary tasks to increase the chances that the program will be successful and support the optimum use of grant funds. A formal marketing plan also enhances the County's ability to achieve goals and objectives. Programs and projects serve an entity's commitment to their mission, and should be designed to achieve specific goals and objectives.

As noted earlier in our report, there is a practical conflict of interest and a lack of separation of duties between the HFA and CD (See Opportunity for Improvement No. 6). The Home Town Heroes Plus program is a good example of how a lack of roles has resulted with this process and neither entity has committed to anything. Neither CD nor, to our knowledge, the HFA have developed a formal marketing plan, objectives or goals for the Home Town Heroes Plus Program. In addition, there is no documentation on how the Housing Finance Corporation fits into the planning process.

A lack of marketing plans, objectives, and goals may limit exposure of the program to the community, hinder the optimum use of grant funds, and provide no means to measure performance.

**We Recommend management:**

- A. Develop a marketing plan, set objectives and goals, and consider other alternatives, such as non-profit agencies, to service the Home Town Heroes Plus program.
- B. Develop procedures to define and implement a proper interface process for this program.

**Status:**

A & B. **No Longer Applicable.** The program is no longer being offered by CD.

### **35. Community Development Program Budget Monitoring For The Home Town Heroes Plus Program Is Inadequate.**

Management stated that they monitor the actual to the revised budget, but not to the original program budget. Management stated they are constantly evaluating whether there is any response to the program, if the program is moving fast enough, etc. The COMDEV Application used to manage/monitor the program. There is also an additional issue with the oversight for the program. It is unclear who is responsible for the Home Town Heroes Plus Program.

Management has stated the program is not CD's; it is an HFA program. However, on the Fiscal Year 2007-2008 Line Item Financial Statement under "Home Town Heroes Plus DAL Program 2006," CD budgeted \$829,755 and expended \$775,790 with a balance of \$53,965 present.

Successful business management requires the ongoing monitoring of performance in order to generate data from which to judge the success of specific strategies. Improvement in performance can only be realistically achieved when management is properly informed about current performance. To this end, it is important to identify key performance indicators that will enable management to report and monitor progress. One indicator consistently used is comparison of actual expenses to starting budget.

Community Development management stated the program's budget changes throughout the year. The important thing to CD is at the strategy level for reporting purposes. The Program Manager tracks spending by criteria (i.e., income level) that are within the strategy policy. Community Development also stated they could not spend more than their budget due to controls in their system.

Community Development management has constructed a process that does not document their performance for decisions made for the program. As a result, by not using an analysis of the original budget versus actual, in addition to the revised budget, management does not have sufficient data to evaluate the effectiveness of the program. Maintaining the original budget, as well as the revised budget for a program, and comparing to actual expenses will assist in the program monitoring process. This comparison will help monitor improvements and examine trends which will help ensure program and strategic goals are met.

**We Recommend management:**

- A. Update the process of monitoring program budget versus actual to also include the original budget and budget changes for the Home Town Heroes Plus Program as well as the revised budget.
- B. Develop written procedures for the process that requires adequate reporting and supporting documentation.

**Status:**

A & B. **No Longer Applicable.** The program is no longer being offered by CD.

### **36. *Community Development Is Paying Loan Processing Fees For Hometown Heroes Plus To The HFA Without A Servicing Agreement.***

Community Development is paying an \$800 per loan servicing fee to HFA for the preparation of loan files for the Home Town Heroes Plus program. The preparation of the loan file and the fee to be paid is not covered by a Specific Performance Agreement like other agencies performing this type of service for CD. In our review of a sample of ten loans processed by CD in our audit period, we found two completed loans where the service fee was paid to HFA. The other eight loans did not receive the service fee, but the loan was recorded as "Completed" on the Management Lien Balance Screen.

Community Development has a similar process with a non-profit agency that delivers Home Town Heroes down payment loans to CD. The Agreement covers the scope of work the loan package requires to be filed for the origination process. Community Development does not have a similar agreement with HFA to process program loans.

The loan file preparation service being performed by HFA, and the servicing paid, should be covered by a Specific Performance Agreement.

Management stated they are paying HFA the same fee as the other agencies supplying this type of service. Management gave no reason for not having an agreement with HFA covering this service for the Home Town Heroes Plus program.

A service is being rendered and a fee paid to HFA that is not covered by an agreement. The action is giving preferential treatment to the HFA since the other agencies performing this service are covered by Specific Performance Agreements.

**We Recommend** County management obtain a Specific Performance Agreement from HFA for the loan processing services and the fees for the Home Town Heroes Plus program.

#### **Status:**


**No Longer Applicable.** The program is no longer being offered by CD.

### **37. *The Home Town Heroes Plus Program Information Posted Under The County's Community Development Department Internet Site Is Not Accurate.***

The CD County website has the Home Town Heroes Plus program as not being active. It is a second mortgage product, among others, available only in association with HFA bond loan customers; the program does not stand alone. Management confirmed the Home Town Heroes Plus Program is currently active and the primary tools for advertising include providing

broadcasts, brochures, and internet information. We reviewed the program information on the County's Community Development Department internet site and noted the following information posted:

"NOTE: The Home Town Heroes Plus program is not yet active. An announcement will be posted on our website upon availability."



**DOWN PAYMENT ASSISTANCE  
PRODUCTS AVAILABLE!**

Interest Free Down Payment Assistance  
is available with Home Key products!

<p style="text-align: center;"><b>MAKING PINELLAS HOME</b></p> <p style="text-align: center;">Up to <b>\$15,000</b></p> <p><b>Eligibility Requirements:</b></p> <ul style="list-style-type: none"><li>• Household income must be less than 80% of</li></ul>	<p style="text-align: center;"><small>With this program, you can get up to \$25,000 in down payment assistance. An announcement will be posted on our website upon availability. For more information, please contact us at (927) 464-9226.</small></p> <p style="text-align: center;"><b>HOMETOWN HEROES PLUS</b></p> <p style="text-align: center;">Up to <b>\$25,000</b></p> <p><b>Eligibility Requirements:</b></p> <ul style="list-style-type: none"><li>• Applicants must be employees of the Pinellas</li></ul>
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**CD COUNTY WEBSITE**

An internet site should provide updated valuable information that is relevant to citizens in the community. The information available at a department site should be designed to serve both external and internal community interests.

Management has not updated the internet site stating that the Home Town Heroes Plus Program is currently active.

Potential borrowers may be mislead to believe that the Home Town Heroes Plus Program is not active, and therefore, may not seek further participation in the program.

**We Recommend** management update the CD Department internet site to provide the current information related to the Home Town Heroes Plus Program.

**Status:**

**Partially Implemented.** Management response only partly addresses the IG Recommendation. The current information was updated, but no commitment was made to keeping the website updated.

## V - Home Repair Loans

### 38. *Community Development Program Budget Monitoring For The Home Repair Program Is Inadequate.*



Community Development does not report and track results to the Fiscal Year Home Repair Program budget and formally document changes made to the budget throughout the year for the Home Repair Loan Program. We requested from CD management the actual expenses paid and original budget for the Home Repair Loan program for Fiscal Years 2007-2008 and 2006-2007. Management provided the ending budget for the program and the actual amount of program expenses paid. They also provided a beginning budget for the higher level strategy, but not for the program itself. When we asked management to further research and provide us the original program budget amount, management stated it did not have the original budget number and tried, but could not recreate it.

Management supplied us with the "Line Item Financial Statement" report for the two years with the financial information for the program listed as "Low Interest Loan Program." The amounts on the report seemed high based on our analysis of the program. After further discussion with management, the Home Repair Loan Program is not reported as a Line Item (combined with

the Senior Grant Program) on the Financial Statement Report so the financial information is not available. Management stated since they do not need the Home Repair as a standalone program to report to the Funding Source, the information is not available.

Community Development management stated the process to manage the program is dynamic. They stated they monitor the actual to the revised budget, but not to the original program budget. They say they are constantly evaluating whether there is any response to the program, if the program is moving fast enough, etc. They stated the program's manager uses about 15 reports from their COMDEV application to manage/monitor the program. For the Home Repair Loan program, some reports are used as a basis for preparing the annual report at the end of the year to analyze spending, determine if a case is closed out and what dollar amount is left versus committed, or to monitor what is available throughout the year to potentially move dollars to other programs. We do agree that having the current budget amount present in the COMDEV Application is a strong control to prevent over-spending the current program budget amount, but this function does not support monitoring and reporting on the program.

Successful business management requires the ongoing monitoring of performance in order to generate data by which to judge the success of specific strategies. Improvement in performance can only be realistically achieved when management is properly informed about current performance. To this end, it is important to identify key performance indicators that will enable management to report and monitor progress. One key performance indicator consistently used is comparison of actual expenses to starting budget.

Community Development management stated the program budget changes throughout the year. The important thing is at the strategy level for reporting purposes. The program's manager also stated that with SHIP, the manager tracks spending by criteria (i.e., income level) within the strategy. They stated they could not spend more than their budget due to controls in their system.

As a result, by not using analysis of original budget versus actual, in addition to revised budget, management does not have sufficient data to evaluate the effectiveness of the program. Maintaining the original budget, as well as the revised budget for a program, comparing to actual expenses will assist in the program monitoring process. This comparison will help monitor improvement and examine trends which will help ensure program and strategic goals are met.

**We Recommend management:**

- A. Update the process of monitoring program budget versus actual to also include the original budget and budget changes for the Home Repair Loan program as well as the revised budget.
- B. Develop written procedures for the process that requires adequate reporting and supporting documentation.



**Status:**

A & B. **Not Implemented.** Management stated the budget is monitored at the strategy level, not at the program level.

### ***39. There Is A Lack Of Formal Written Procedures For The Home Repair Loan Program Review And Approval Process.***

The CD Department has not developed Home Repair Loan program formal written procedures covering the related processes for the key functions including review, approval, denial of applicant eligibility, management overrides of program criteria and required checklists. The lack of written procedures has produced inconsistencies in the Home Repair Program file documentation and process. Based on our review of a sample of 13 Home Repair Loan Program files (case files), we noted the following issues:

- A. The CD Preliminary Checklist was not present in two of six applicable files reviewed. The Preliminary Checklist is one of three checklists used as a control by CD to ensure files are complete. We discussed the issue on November 24, 2008 with CD management and the CD Planning Specialist.
- Management stated the Preliminary Checklist is not a control for eligibility.
  - The Planning Specialist stated that this checklist is used as a control to improve the workflow of documents, but could not remember when she started using this checklist.
  - Management agreed it is an efficiency control.
  - The Planning Specialist said this Preliminary Checklist is used for the CD front office specialist to initially review the file from the agency for any missing paperwork and allow follow-up with the agency for any missing documents that the Planning Specialist would need to perform the review.
  - The Planning Specialist stated that the Preliminary Checklist is not a requirement, but is more to help with workflow; it saves time in the process. However, the file would still move to the Planning Specialist, if needed, had a preliminary review with the checklist not been done.

We find several internal control weaknesses with the management process described above regarding the lack of formal written procedures:

1. If the Preliminary Checklist improves productivity, the use should be a requirement.



2. It appears that the Planning Specialist put in place their own procedure for use of the Preliminary Checklist without management review and approval.
  3. Based on the information supplied by CD, there is no documentation supporting the cost justification for the use of the Preliminary Checklist.
- B. There is no formal approval signature by CD management that the applicant was approved as eligible for the loan with a statement as such for six of seven applicable files reviewed. There are no formal written procedures defining what the different initials represent. The CD Planning Specialist has initialed the checklist as "Reviewed by CD" and initialed any payment requests in the file. We discussed this on November 24, 2008 with CD management. The Planning Specialist stated her signature and date on the "Case File Checklist" next to the "Reviewed by CD" caption indicates her approval for the loan. It means that the applicant is approved for eligibility. Specialist #1 looks at the criteria and approves eligibility. Specialist #2 also reviews and approves saying it is eligible. The current CD process does not clearly define and label who is approving eligibility and the lack of formal written procedures leaves an open question if the internal control process for approval for eligibility also requires management approval.
- C. One file in our sample that was not approved for eligibility does not contain any formal statement in the file that the applicant was turned down (denied) for the home repair loan. The CD Planning Specialist has initialed the checklist as "Reviewed by CD" (with no date indicated). There was attached to the file a post-it note dated October 16, 2007 initialed by the CD Planning Specialist of the reason for the denial and that the agency was informed. Per discussion with the CD Planning Specialist, these decisions are usually communicated verbally to the agency by CD and not documented in any correspondence to the applicant of such decision. Community Development relies on the agency to communicate the decision to the applicant directly. Per discussion with the CD Planning Specialist, "this file was a turn down" by CD because the applicant was over the income level. There is no formal written policy and procedure in place for denials. Management stated there is communication ongoing on each file with the applicable agency. They only expect to get files from the agency considered as eligible by the agency. They stated applicants denied by the agency should not be sent to CD. In this case, since the agency sent the file to CD, the denial of the applicant should be clearly defined and documented in the CD file. We also question why there is ongoing communication between the agency and CD. The agency is being paid a fee to deliver a proper loan file to CD for the program. If this is not the case, the problems should be documented in writing and delivered to the agency as compliance issues with their agreement. The problems could be affecting CD's productivity and no corrective action is taking place.

- D. There was no formal written approval for the fact that an applicant exceeded the 50% income ceiling for the size of the household covering deferral approval for two of nine applicant files. The Program Information Statement for the Home Repair Loan states in some cases, very low income applicants may qualify to defer all or part of the loan repayment, interest free, for as long as they continue to own and occupy the property. Deferred payments and alternative payment schedules must be authorized by the CD Department and will be based on an analysis of the applicant's situation and ability to pay. Florida Statute, Section 420.9071(28), defines very low income as income that does not exceed 50% of area median income (AMI). We discussed this issue with CD management and the CD Planning Specialist on November 24, 2008. They stated the Program Information Statement is a guideline. They also stated management overrode the guidelines on these two items. Each of the two files had a signature of management approval for the deferred loan override on a spreadsheet in the file. Management stated they (CD) have the ability and authority to override the guidelines as long as they follow the grant requirements. Management stated the Program Information Statement is their planned guidelines. If CD management overrides their own guidelines, there should be documentation in place as to why the guideline was overridden. More importantly, there is no written policy or procedure in place stating management can override the requirements in the Program Information Statement, what is required as a reason for the override, and what position in management can approve the override. Although management stated they have a process in place, it is not documented in writing.

Based on our analysis and discussions with CD staff and management, CD does not have complete formal written and approved procedures for the eligibility review and approval process for the Home Repair Program. Although the following guidelines used by CD provide some framework for the tasks of the program, they do not replace the need for written procedures for the CD Department operations:

- 1) CD Underwriting Guidelines.
- 2) Sample Procedures for Processing Loans.
- 3) Desktop Procedures for Low Interest Loan Program.
- 4) Government requirements.
- 5) Program Information Statement.

The guidelines are not complete formal written procedures showing approval by CD management and the date approved. They do not include an effective date, do not state management can override the requirements in the Program Information Statement, and do not state what is required as a reason for the override and what management level can approve the override. They do not include the names of forms or spreadsheets to be used for each task, what position performs each task, where the forms are located (if electronic or hardcopy), and what level or position should approve the pertinent tasks or documents.

Management should have a formal complete written and approved procedure in place. Although they state they have a process in place for this, it is not documented in writing. In addition, CD should have formal complete written and approved overall procedures for the eligibility review and approval process for the Home Repair Program including which forms, spreadsheets or documents should be completed, who should complete them, where they are located (server, etc.), who or what position should complete them, and what position should be approving the tasks and decisions for eligibility.

Written policies and procedures are necessary to serve as a basis for planning, control, and evaluation of organizational or program activities. Procedures also serve as a guide to employees in the performance of operations to answer questions on procedures or tasks and resolve problems that may arise. Lastly, they may also provide an internal control structure for established tasks requiring management approval. The establishment of the procedures provides the opportunity for management to ensure adequate process/internal controls have been established. It is management's responsibility to establish written internal procedures covering key department processes. The procedures should be in sufficient detail to provide standard performance criteria and reduce the risk of misunderstanding and/or unauthorized deviations that could cause processing errors. The development of the procedures could prevent the establishment of unnecessary controls or steps that negatively affect process productivity. The procedures also support the cross-training and back-up for key staff functions.

Management has stated they did not see the need to have formal written procedures for that segment of the operations beyond the guidelines in place. Management also stated their procedures have to be very broad based and noted they follow the grant guidelines, Program Information Statement, and their desktop procedures for this program which are adequate. However, at other times, management has stated the Program Information Statement is not a procedure, but only guidelines. Desktop procedures are not formal approved CD procedures, but staff level items developed by the staff. Management also has a document entitled, Sample Procedures for Processing Loans for Owner Occupied Properties; however, this document is not complete with information on positions responsible for tasks, forms required or to show approval of the Department Director and effective date.

Management stated we had not asked for their procedures for this program, but later produced an email we sent to them requesting such procedures for the Home Repair Loan Program. Management supplied us with Desktop Procedures for the Low Interest Loan (Home Repair) program, Minimum Standards for Rehabilitation of Residential Properties document, and a statement that management would provide the CD Training Manual for Agencies. Management was informed at that time the items provided cannot be considered formal written procedures for the program since the documents were prepared by the staff and never formally reviewed and approved by management for effectiveness, efficiencies, proper internal control, and timely updates for changes in the process.

The CD management policy, to not have formal complete written procedures covering this area of the CD operation related to the Home Repair Loan Program, does not produce an adequate internal control structure for the operation of a County Department. The Funding Grant

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guidelines are general in nature and will not function as internal control procedures for CD operations. The lack of procedures has resulted in inconsistencies in operation, weak internal controls, unauthorized latitude in staff operations and weak management oversight.

**We Recommend management:**

- A. Develop formal complete written procedures beyond the current guidelines, which will provide the necessary information to keep the process current and accurate and provide the necessary documentation to support the internal controls of the process for the Home Repair Loan Program.
- B. The procedures should be approved by CD management and dated. Signatures representing approval of eligibility should be labeled as such, instead of "Reviewed by CD."
- C. The procedures should also include which position performs what task and which position approves tasks and decisions. It should also include which forms, spreadsheets, and documents are to be used for each task and where they are located.
- D. Cross-training should be provided to ensure that a second appropriate staff member could carry out the responsibilities of the function.

**Status:**

A - D. **Not Implemented.** Management stated there are no separate procedures for the program. Procedures are written at the strategy level, not at the program level.

#### ***40. Community Development Lacks Written Program Goals For The Home Repair Loan Program.***

By policy, Community Development management does not develop goals at the Home Repair Loan Program level. Management stated that program goals are not in writing, but that being in compliance with the funding source/grant is the ultimate goal. They also stated the Local Housing Assistance Plan of SHIP filed by CD lays it all out and the overall goals are laid out in this document. They added, it would be redundant at the program level. They further stated they keep track of trends in the housing market and noted that it is a fluid process. Community Development management also stated CD has not given any money back to SHIP since inception of the SHIP program (about 1993). Community Development uses a three tier level of funds usage: Grant Funding, Strategy, and Program. The Program level is where the customer receives the service. Not to set goals at the offering level and move the goals and objectives up to the funding step level does not place the attention to the proper step; the benefit is received by the Pinellas County resident. We agree with management that using the funding received from SHIP is important, but it is just as important to plan and use the funding in the best way to serve the public.

Program goals provide performance criteria to measure effectiveness or success of a program. Goals are necessary for effective management of the program and help to establish and monitor priorities. In addition, they provide guidance via specific and measureable milestones to carry out an activity. Goals provide a framework within which to work and greatly improve chances of success. They also help to focus efforts. To ensure success of any program or activity, it is important to define the related goals.

Community Development management does not believe there is a need to establish formal written goals and deliverables for the Home Repair Loan Program. Management stated their goals are to meet the criteria for SHIP and HOME funding sources and the lower level goals are the dollars spent based on market conditions. The SHIP and HOME criteria is broad by design to allow the Counties to tailor the grant funding to the regional needs. Not having goals set at the program level that the service is delivered to the taxpayer is considered inadequate planning.

With formal established program goals, the CD staff and related support functions will more likely maintain their sense of program direction and the services to be delivered. As a result, a formal method to evaluate goals and deliverables would improve the overall management process for the program. Written goals would assist management in providing the defined services for the program. Written program goals would also offer a clear standard for performance and promote understanding by other County departments, agencies and the general public.

**We Recommend management:**

- A. Establish a written set of program goals for the Home Repair Loan Program which are specific, relevant, and measurable goals for the program.
- B. Evaluate the degree of success of such goals at least annually.

**Status:**

- A & B. **Not Implemented.** Management stated the grant requires performance metrics to be set and reported at the strategy level, not at the program level.

**41. *Community Development Policy Does Not Require A Written Marketing Plan For The Home Repair Loan Program.***

By policy, Community Development management does not develop a marketing plan at the Home Repair Loan Program level. Management stated they do not have a written marketing plan for the Home Repair Loan program. However, they stated they currently have one in draft form and it is not formalized. We asked who is responsible to market the program (the agency or CD). They stated the agencies do outreach and marketing on their own, but there is no

requirement for that. They also stated they do not leave the marketing entirely up to any agency.

Community Development uses several types of marketing sources:

1. Advertising on the County's TV channel.
2. Performing presentations at other County offices.
3. Use of the department webpage on the internet.
4. Radio spots.
5. Flyers.
6. Periodic mailings.
7. Press releases once per month.

For the Home Repair Loan program, according to CD records, only 13 case files were sent to CD by the agencies for the time period of July 1, 2007 through August 30, 2008. Community Development management stated the number of loans is not a good measure of the program (each loan represents a homeowner being assisted). It is more a question of if they are meeting the strategy. It appears that meeting the strategy is more important than assisting the greatest homeowners in need. In addition, we determined through a review of the case files for the Home Repair Loan program, the application does not contain a line asking how they learned about the program. This may help to gather information related to evaluating effectiveness of the different types of marketing media used.

Community Development uses a three tier level of funds usage: Grant Funding, Strategy, and Program. The Program level is where the customer receives the service. To not set a marketing plan at the offering level and move the plan up the funding steps does not place the attention to the proper step; the benefit is received by the Pinellas County resident.

A formal marketing plan is necessary to provide direction, identify responsibilities, and identify necessary tasks to increase the chances that the program will be successful and support the optimum use of grant funds. It should include the media to be used as well as an analysis of the cost-effectiveness of such media.

Community Development management stated they currently have a marketing plan in draft form, but it is not formalized. Community Development management does not believe there is a need to establish a formal written marketing plan and deliverables for the Home Repair Loan Program.

A marketing plan helps ensure that all tactical marketing programs support the department and program's goals and objectives, as well as convey a consistent message to customers. Also, it improves efficiency between the department and agencies, which helps improve program effectiveness and minimizes expenses, all of which lead to optimum use of grant funds.



**We Recommend management:**

- A. Formally document in writing a Marketing Plan which addresses the Home Repair Loan Program as well as the other CD programs to include:
- Documenting who (an agency or the CD Department) has responsibility for paying marketing costs and performing marketing tasks of the Home Repair Loan program.
  - The plan should include, by program, the types of media to use and address the cost effectiveness of the media type(s) planned.
- B. Either add a line to the application to ask how the applicant heard about the program or have the agency gather and document the information in the file on a separate document.

**Status:**

A & B. **Not Implemented.** Management considers the current practice adequate.

## ***42. Marketing Responsibility For The Home Repair Program Loans Is Not Clearly Established.***

Marketing responsibility for the Home Repair Loan Program is not defined. As stated in Opportunity for Improvement No. 41, CD does not have a marketing plan for this program. We visited two agencies performing services for Community Development regarding the Home Repair Loan program. We discussed with the agencies their role in the marketing of this Home Repair Loan program. We noted there is confusion as to who is responsible for marketing the program: the agency or CD.

- The Housing Program Manager at one agency stated that the agency cannot afford to do the marketing as a non-profit.
  - The Agency Manager did not remember any advertising for the program being done in the last five years before the postcard mail-out the previous month (October 2008) by the CD Community Planning Specialist.
- The second agency was told by CD that the agency had to do the marketing of the program (and not be reimbursed).
  - This agency spent money in the beginning of the contract for newspaper ads, radio ads, and brochures.

Community Development executed Specific Performance Agreements with each agency for one year increments to detail scope of services, funding, term, reporting, and other

requirements. The Specific Performance Agreement between the County and the two agencies we reviewed does not mention who is responsible for paying marketing or advertising costs of the program. Community Development management stated they do not have a formal marketing program for Home Repair, but is in the process of developing a plan.

In order to ensure effectiveness of the program, responsibility for the tasks and required financial resources should be clearly documented and communicated to the appropriate parties.

The Specific Performance Agreement between Pinellas County Community Development and the two agencies we visited does not address which party is responsible for marketing the program and paying the marketing expenses of the program. Management stated there is no requirement to do any marketing and there will be no plan to market the program.

There are also inconsistencies with the information received from management.

- The Program Manager stated that the agencies will do outreach programs, but could not supply any information on this function.
- Management stated the marketing plan is not needed because there is usually a waiting list for the program.
  - When we requested information on how CD and/or the agency prioritize applicants, management stated there is no waiting list for the program.

Management also stated their website acts as a marketing tool. Our review for the program information present on the website is not considered marketing for the program. Community Development management has not properly addressed marketing needs and internal policies for the program.

Not establishing responsibility for marketing and funding of the marketing may result in the program not being successful in homeowners assisted. Also, the agency told to pay for advertising and marketing costs of the program up front did not renew the existing Specific Performance Agreement with CD after it expired September 30, 2008. This may also affect the level of assistance to homeowners for this program, and ultimately the program's effectiveness, with one less agency available in a geographic area.

**We Recommend management:**

- A. Document in writing who has responsibility for paying marketing costs and performing marketing tasks for the Home Repair Loan program.
- B. If the agencies processing applications for the Home Repair Loan program have some financial or operating responsibility, this should be documented in the scope of services paragraph of the Specific Performance Agreement between CD and the agency.



C. This information should be made part of the written marketing plan for the CD program.

**Status:**

A, B & C. **Not Implemented.** It is management's opinion that the responsibility for marketing is clearly defined.

### ***43. Community Development Has Not Established Adequate Procedures At The Agency Level For The Home Repair Loan Program.***

Community Development has not developed adequate agency procedures to support the scope of work required by the Specific Performance Agreements under the Home Repair Loan program. We visited two agencies, Homes For Independence, Inc. and Meridian Community Services Group, Inc., who perform services for CD regarding the Home Repair Loan program. We discussed with the agency whether they had procedures for performing tasks within the scope of services of the agreement such as income certification for eligibility and inspecting/monitoring the construction work.

One agency had a checklist (agency checklist) for tracking the status of documents to obtain or complete, and one for documents to send to CD (a CD File Checklist). However, they did not have a copy of the Pinellas County CD Agency Training Manual or other written procedures for performing income certification or monitoring of projects. The second agency had a copy of the CD Agency Training Manual. Although the CD Agency Training Manual has a paragraph titled "Construction Monitoring" in a document in the manual entitled, "Sample Procedures for Processing Loans for Owner Occupied Properties," it does not indicate the frequency or interval of inspections by an inspector nor what forms should be used to document the inspection. Also, it does not indicate that the inspector should also inspect and approve at each payment draw (in addition to the homeowner). The CD Agency Training Manual also has some sample CD forms, CD file checklists and the SHIP Program Manual which has guidelines and forms for income verification. Opportunity for Improvement No. 45 contains additional information covering the inspector's function.

The Specific Performance Agreement with the two agencies, under the Scope of Service Section, states:

"(1) The Vendor shall process loans and manage associated housing renovation activities for Department's owner-occupied housing rehabilitation, purchase rehabilitation and down payment assistance loan programs. Vendor shall adhere to Department's programs descriptions, processing and underwriting guidelines, rehabilitation standards and all relevant materials for each program."

Based on the written procedures supplied by CD, the agencies have not received adequate procedures from CD to comply with the agreement's scope of work.

Written procedures provide guidance necessary to properly and consistently carry out departmental activities at a required level of quality. The establishment of the procedures provides the opportunity for management to ensure that adequate process/internal controls have been established. It is management's responsibility to establish written internal procedures covering key department processes. The procedures should be in sufficient detail to provide standard performance criteria and reduce the risk of misunderstanding and/or unauthorized deviations that could cause processing errors. The development of the procedures could prevent the establishment of unnecessary controls or steps that negatively affect process productivity. The procedures also support the cross-training and back-up for key staff functions.

Community Development management does not have a process in place to supply the agencies with adequate and current policies and procedures relating to the CD programs. Management stated that the agencies have proper procedures to perform their required work. They stated this is done through the agency training programs held throughout the year. Management furnished the training classes held, but could not supply the information covered in the training class. Therefore, we could not evaluate that the training classes held supplied the information needed by the agencies to perform the services as defined in the agreements with the agencies.

Without written procedures for performing monitoring of construction projects for this program, which include required forms, frequency of inspections and required approvals, new personnel performing this task due to turnover may not have sufficient guidance and information to readily carry out the responsibilities for this function. In addition, results produced by current staff may not be consistent with objectives of the program. In Opportunity for Improvement No. 39, management stated CD staff has constant interface with the agency on the loan files. The lack of adequate agency procedures supplied by CD may be causing a processing delay and effecting productivity.

**We Recommend management:**

- A. Improve the guidelines in the Training Manual by preparing more specific procedures on monitoring of construction projects for the Home Repair Loan program. The procedures should include:
    - The frequency or interval of inspections.
    - Indicate the forms to be completed and signed.
    - Include a requirement for both the homeowner and inspector to sign the inspection forms.
  - B. Provide a current Pinellas County CD Agency Training Manual to the Homes for Independence agency, once the construction monitoring procedures are updated.
  - C. Training sessions for the agencies should be properly documented and include an outline of the topics covered.
-

**Status:**

- A. **Not Implemented.** Management did not address the IG Recommendation in their response. No commitment was made to make changes to the Training Manual.
- B. **Not Implemented.** Management stated in their response that the Training Manual was presented to the Agencies at the May 15, 2007 training meeting.
- C. **Not Implemented.** Management did not address the IG Recommendation in their response.

#### ***44. Denied Application File Retention Could Be Improved For The Home Repair Loan Program.***

Community Development has not formally documented how the agencies should handle the retention of files of loan applicants that did not qualify under the Home Repair Loan program. We visited two agencies (covered in Opportunity for Improvement No. 43) and discussed with them what their procedures were for denied applications and what documentation they maintained. The Specific Performance Agreement states:

All records are to be retained for five years from the ending date of the County's fiscal year in which the agreement is paid in full, expired, or terminated. All records subject to audit findings shall be retained for the five year period mentioned or until such findings have been resolved, whichever is later. It also states upon completion of all activity for each loan, the vendor shall submit the completed file to the department.

It does not specifically mention denied application files. Since the denied application files are maintained at the two agencies instead of CD, the denial letter and supporting documentation for the denial may not be available.

Community Development should ensure the agencies retain supporting documentation for all denied application files for the time period noted in the Specific Performance Agreement. This will permit research in the event of legal questions to CD and permit adequate evaluation and analysis for ideas related to effectiveness of the program.

The Specific Performance Agreement does not address whether the denied applicant files should be considered loan documentation to be maintained.

Although the Specific Performance Agreement states the retention requirement for the agency for records related to the agreement, retention of the records for denied applications by the agency, instead of by CD, increases the risk that if the agency stops doing business with the County, documents may not be readily available to address legal questions to CD regarding these denied applicants.

**We Recommend management:**

- A. Confirm with the agencies that the agencies are saving the files not submitted to CD for the five year retention requirement.
- B. Add the requirement for retention in the Agency Training Manual.

**Status:**

A & B. **Not Implemented.** Management considers the current process adequate.

**45. Construction Progress Interim Inspections Are Not Signed By Inspector For The Home Repair Loan Program.**

The CD policy for the agencies to conduct independent inspections of the construction work in progress to justify the payment of a construction draw does not require the inspector to sign the draw form. Our review of a sample of loan files for the Home Repair Program found four of six files had one or more interim draw forms for inspection and payment with the inspector's name, but no signature. The form has a place for the inspector's name, but not for the signature. The form contains the signatures of the homeowner, contractor, and notary. The draw document appears to be a Home For Independence form not supplied by CD. Community Development management stated three signatures, not including the inspector, on the interim inspection and draw request are sufficient. Management also feels since the County inspects the work via the permit process after the work is completed, this provides another level of control.

Having an independent third party inspect the work in progress to confirm the request for payment is the main control with the homeowner and the contractor secondary controls. Having just the name of the inspector with no signature is considered a weakness in the internal control.

The CD program manager stated in an email:

"While agencies handled inspection forms differently, it is not required by our department that the inspector signs the inspection form. These inspections are related to the work contained in the rehab contract which is a binding agreement between the homeowner and the contractor. Funds are only released to the contractor contingent upon a signature from the homeowner and the contractor, the parties of the agreement. The agency in the role of program administrator must ensure that the homeowner and the contractor both agree the work, pertaining to that specific draw, has been completed to satisfaction and obtained the needed signatures. The agency is not a party to the contract."

The fact that the agency is not party to the contract is irrelevant; it is CD's responsibility that the homeowner (with little or no rehab construction knowledge) is protected and receives via a third party inspector the services being paid for. Again, the inspection of the work by an independent third party is a key internal control CD is disregarding.

Requiring the signature of the homeowner and contractor with the notary and not including the signature of the inspector in the process presents a weakness in the inspection internal control documentation. The signature of the inspector does not have to be part of the notary process.

**We Recommend** management put in place a formal written procedure for the agencies requiring the signature of the inspector on the draw form and have the agencies revise their form for the signature requirement.

**Status:**

**Implemented.** Signature line for the construction progress inspector on the Certification of Inspection Progress Payment Affidavit Form is in place.

## **VI – Housing Finance Authority/Administrative Service Agreement**

### ***46. The Processing Of Community Development Employees Travel Vouchers By The HFA Has Inadequate Internal Controls And Bypasses The County Finance Pre-Audit Function.***

The policies and procedures followed by the HFA for the processing of Travel Reimbursement Vouchers for CD Employees to attend conferences and seminars on behalf of the HFA have inadequate internal controls. In addition, the CD employees Travel Vouchers are not processed through the County's Finance Department, thus avoiding County requirements and the pre-audit function for County employees. Our review of 16 CD employee's Travel Vouchers totaling \$20,000 covering October 1, 2007 through December 31, 2008 found documentation issues, and none of the vouchers would pass the pre-audit review conducted by the County Finance Department for employee Travel Vouchers.

A chart was developed comparing the County and the HFA Internal Controls for the Travel Reimbursement Voucher Process.

<b>COUNTY INTERNAL CONTROLS FOR TRAVEL VOUCHERS</b>	<b>REQUIRED BY HFA</b>	<b>REQUIRED BY FINANCE</b>
Support for Airline Ticket	No	Yes
Support for Hotel	No	Yes
Support for Registration Fee	No	Yes
Conference Schedule	No	Yes
Description of Training, Seminar or Conference (business justification)	No	Yes
Payee Signature on Travel Voucher	No	Yes
Approval of Travel Voucher	No	Yes
Chairman/Vice Chairman Signature	No	No

We noted the following specific issues:

A. The documentation issues for the Travel Vouchers consisted of:

1. No support for airline, hotel, and registration fee expenses attached to the Travel Voucher.
2. None of the vouchers contained a copy of the conference schedule documenting any meals included/not included with the registration fee.
3. The documentation for the payment of the registration fee (either the check, credit card or the Travel Voucher) did not contain information about the topic it covered to support the benefit to the County.
4. In the 16 Travel Vouchers reviewed, 11 vouchers had no "Approved" signature and three did not have a "Payee" signature. Included in the "Approved" Travel Vouchers, there were four vouchers for the Director of CD/HFA. Without the signatures, the certification statement for the expenses is not attested to by the payee and the approver. In addition, without an approval on the Travel Voucher, there is no dual control in the process.

The Payment Request Form for each Travel Voucher was approved by the Director of CD/HFA, but this function does not replace the need for the approval on the Travel Voucher. The process also has the Director approving his own Payment Request Form.

B. There were three workshops/conferences the CD staff was sent to without the employee completing a Travel Voucher. The registration fee was paid by HFA check or credit card and the transportation was reimbursed through the "Local Travel" process. Therefore, the CD staff was traveling without an authorization to travel that is required for all County employees. The registration fee payment also did not contain adequate supporting documentation. Related concerns are:

1. Five CD staff attended the NALHFA conference in Tampa on the topic, "Essentials of Single Family Housing Finance," at a total cost of \$750. The payment authorization was a memo from the Director of CD/HFA (Payment Request dated April 2, 2008). There is no support from the sponsor documenting the training scope, the cost of the seminar or the date of the seminar.
2. Four CD staff were sent to a workshop given by the Pinellas County Cultural Affairs at a total cost of \$65. The payment authorization was a memo from the Director of CD/HFA (Payment Request dated March 28, 2008). There is no support from the sponsor documenting the training scope, the cost of the seminar or the date of the seminar.



3. Two CD staff attended an educational conference (Buzz Marketing) sponsored by Pinellas County Cultural Affairs at a total cost of \$30. The payment authorization was a memo from the Director of CD/HFA (Payment Request dated April 24, 2008). There is no support from the sponsor documenting the cost of the seminar and no itinerary for the program.

- C. The HFA Meal Reimbursement Allowance is not in agreement with the County. The HFA allowance allows \$3 per day for incidentals with the same breakfast, lunch, and dinner allowance. The impact of the incidental allowance for the 16 travel vouchers reviewed was \$162. Therefore, County employees are being reimbursed at a rate not allowed by their employer (Pinellas County).

The Administration Service Agreement between the County and the HFA authorizes the County to provide certain administrative and support services that will enable the HFA to more efficiently meet the public purpose. The Agreement does state, "The County will invoice the HFA on a monthly basis for the HFA's share of the personnel, premises, equipment, resources, and services, which the HFA is responsible to pay under the terms of this Agreement." The Agreement does not authorize the processing of Travel Reimbursement Vouchers and Local Travel Reimbursement for CD employees by the HFA.

The HFA Accounting Procedures have sections covering "Travel and Travel Advances," but the procedures are not adequate. The procedure states, "Upon completion of the travel, the traveler will complete a travel reimbursement form and attach all necessary receipts." Also, it states, "Travel reimbursement requests must be accompanied by adequate documentation and are submitted to the Finance Manager or his/her designee along with a Payment Request Form for Payment." The procedure has no definition of "adequate documentation." The procedure does not require the Financial Manager to review the transaction. The procedure is inadequate compared to the County process and does not properly control the HFA function.

The procedures being followed by the HFA for the process of CD employee Travel Vouchers are intentionally bypassing the County internal controls and pre-audit function. The CD employees, for HFA related travel, do not have to comply with County documentation requirements for travel reimbursement resulting in possible noncompliance with overall County travel policies.

**We recommend** CD management stop authorizing CD employees, and the HFA stop processing, Travel Reimbursement Vouchers and Local Mileage Reimbursement for HFA related travel for County employees. The vouchers must be processed through the County Finance Department with the HFA reimbursing the County for the expenses.

**Status:**

**Not Implemented.** Management did not address the IG Recommendation in their response. Management did state the HFA maintains separate financial controls from Community Development. Clerk's Finance Department does not issue HFA checks; therefore, a pre-audit function does not apply.



**47. The HFA Procedures For The Processing Of Two Credit Cards Held By Community Development County Employees For HFA Expenses Have Inadequate Internal Controls.**

The HFA credit cards held and utilized by two County employees (Director of CD/HFA and the Administrative Secretary) for processing of HFA expenses have inadequate internal controls for controlling supporting documentation and approvals for the payment of the monthly billing process. Our review of 12 invoices totaling \$25,000 covering October 1, 2007 through December 31, 2008 found documentation issues, and only one of the vouchers would pass the pre-audit review conducted by the County Finance Department for credit card invoice payment.

A chart comparing the County and the HFA internal controls for the credit card invoice process is presented below:

COUNTY INTERNAL CONTROLS FOR PURCHASE CARDS	REQUIRED BY HFA	REQUIRED BY FINANCE
Travel Request Form A1 (Approval of Prepaid Items), including airline and registration fee, if included on the credit card billing	No	Yes
Travel Form D (with copy of airline, hotel and registration fee) if included on the credit card billing	No	Yes
Procurement Card Activity Log	No	Yes
Charge Slip, Invoice or Receipt	Yes	Yes
Specific Description of Each Item Purchased	No	Yes

- A. There is no justification for the Director of CD and his Administrative Secretary to have an HFA Visa credit card. They are not employees of the HFA; they are County employees and, if required, should be using County Purchasing Cards. The Administrative Service Agreement authorizes the County to provide certain administrative and support services that will enable the HFA to more efficiently meet the public purpose. The Agreement does not authorize County employees acting as Agents for the HFA to have HFA credit cards. The Agreement does state, "The County will invoice the HFA on a monthly basis for the HFA's share of the personnel, premises, equipment, resource, and services, which the HFA is responsible to pay under the terms of this agreement." The CD employees should use a County Purchasing Card with the expenses processed through the County and invoiced to the HFA for repayment. County employees should not bypass County internal controls by processing this type of expense directly through the HFA accounts payable process that does not comply with County controls.

**Status of Recommendations: Follow – Up Audit of  
Community Development Administration and Selected Programs**

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- B. The supporting documentation for the payment of six credit card invoices lacked the support for travel related charges for airline tickets and hotel bills, and none of the invoices had a copy of the employee's Travel Voucher (Paid or Advanced) authorizing the travel expenses.
- C. Other issues with the documentation supporting the expenses recorded on the credit card invoices are:
1. There was a total of \$956.18 that was supported by register tapes and receipts. The Check Request Form states the items are for the "25th Anniversary." There is no explanation for the use of the items charged. The items included five gift cards (\$250), a bill from Trickle's Jewelry (\$115.56), a bill from Things to Remember (\$271.32) and register tapes from Michaels, JoAnn's and Wal-Mart (\$319.30). There is no justification that the expenses were for a proper County purpose and benefited the residents of Pinellas County. See paragraph "F" below for additional information on the 25<sup>th</sup> Anniversary.
  2. Two gift cards for \$50 each were purchased. There is no explanation for the use of the items charged. There is no justification that the expense was for a proper County purpose and benefited the residents of Pinellas County.
  3. Two airline tickets were charged to the credit card for CD staff travel to Miami and the amounts reported on the Travel Voucher do not agree. There is no documentation attached to the Travel Voucher supporting the charge or the difference. The error did not impact the amount being received by the staff member.

CREDIT CARD	EXPENSE VOUCHER	DIFFERENCE
\$241.80	\$183.80	\$58.00
\$341.20	\$183.80	\$157.40

4. There was a bill from Trickle's Jewelry for a "Crystal wine decanter" costing \$144.45. On the Check Request Form, the description states, "Office." There is no explanation for the use of the items charged. There is no justification that the expense was for a proper County purpose and benefited the residents of Pinellas County.
5. An airline ticket was purchased for the Director of HFA (and CD) for \$100 to Atlanta (Continental) on March 6, 2008 for a trip on April 16, 2008, which is not supported by a Travel Reimbursement Voucher. In addition, there was no documentation attached to the credit card payment for the item.

traveler will complete a travel reimbursement form and attach all necessary receipts." It also states, "Travel reimbursement request must be accompanied by adequate documentation and are submitted to the Finance Manager or his/her designee along with a Payment Request Form for Payment." The procedure has no definition of "supporting documentation." The procedure does not require the Financial Manager to review the transaction. Based on our analysis, there is inadequate supporting documentation being submitted with the credit card billing.

The CD employees, acting as agents for the HFA, are not required and are not supplying adequate documentation to support the payment of the HFA credit card billing. The procedures being followed by the HFA are intentionally bypassing the County internal controls and pre-audit function.

**We recommend** CD management stop authorizing CD employees to have and use HFA credit cards. As County employees, they should be using the County Purchasing Card. The payment of the invoice must be processed through the County Finance Department with the HFA reimbursing the County for the expenses.

**Status:**

**Not Implemented.** Management did not address the IG Recommendation in their response. Management did state that adequate internal controls are in place as documented in HFA's independent external audit.



# DIVISION OF INSPECTOR GENERAL

KEN BURKE, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER  
PINELLAS COUNTY, FLORIDA

## SERVICES PROVIDED

AUDIT SERVICES

INVESTIGATIONS

GUARDIANSHIP SERVICES

CONSULTING

TRAINING

GUARDIANSHIP FRAUD HOTLINE

COUNTY FRAUD HOTLINE



Accredited Office of Inspector General  
*by the Commission for Florida Law Enforcement Accreditation*

Write: Fraud Hotline  
Public Integrity Unit  
Division of Inspector General  
510 Bay Avenue  
Clearwater, FL 33756

Phone: (727) 453-3728  
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Internet: [www.mypinellasclerk.org](http://www.mypinellasclerk.org)

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